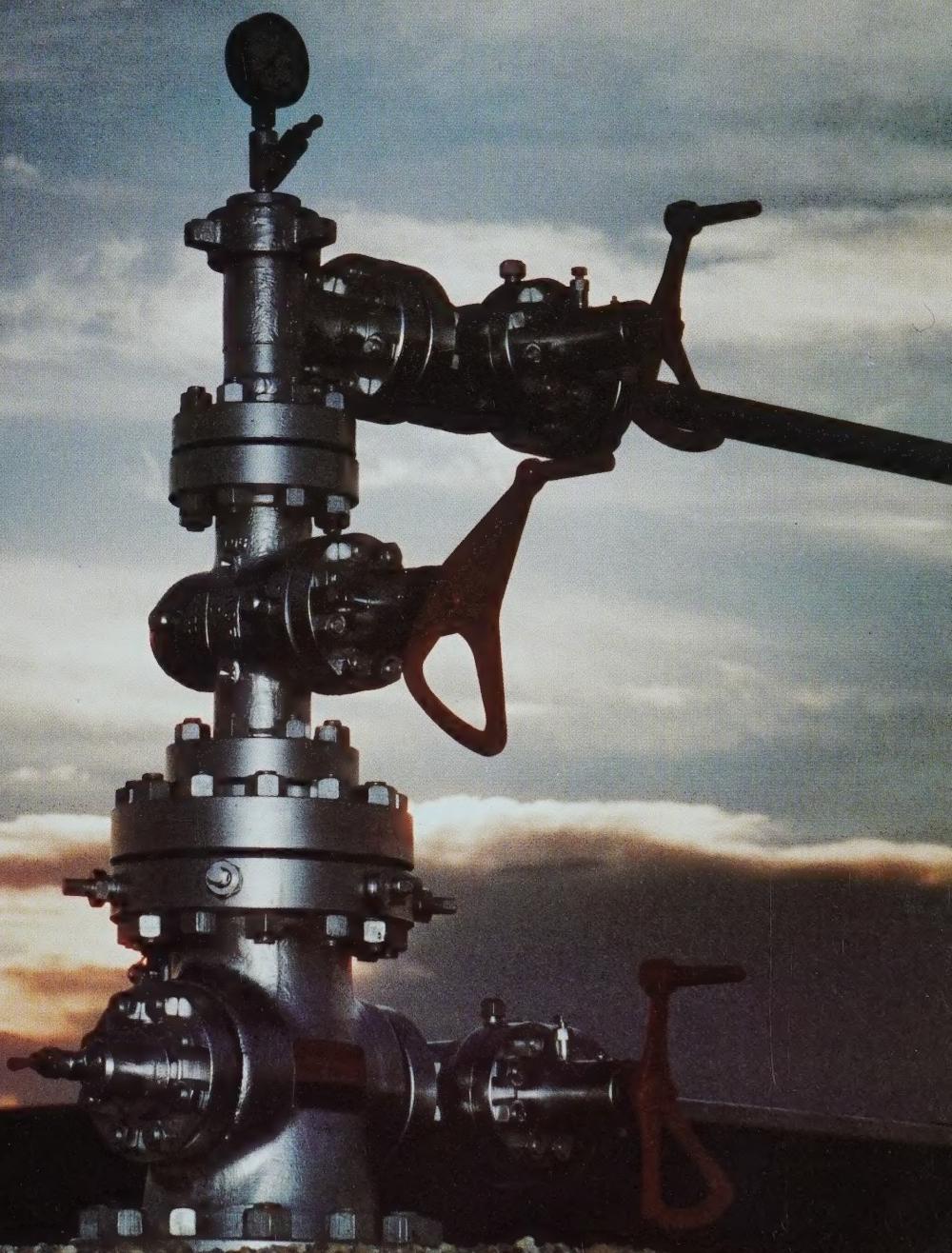


AR31



Bow Valley Industries Ltd.



nineteen seventy-seven annual report

financial highlights

	1977	1976
Revenue	\$ 131,715,000	\$ 103,328,000
Cash Flow	\$ 13,972,000	\$ 7,587,000
Per Common Share	\$ 2.89	\$ 1.58
Net Income	\$ 4,778,000	\$ 975,000
Per Common Share	87¢	88¢
Average Shares Outstanding	4,833,725	4,794,668
Capital Expenditures	\$ 34,479,000	\$ 24,820,000
Working Capital	\$ 11,223,000	\$ 3,115,000

Bow Valley Industries Ltd. is a resource-oriented company that was incorporated under the laws of the Province of Alberta in 1950. Bow Valley, through two operating entities, is engaged in exploration and development and service and manufacturing activities related to the natural resource industry.

Annual General Meeting

The Annual General Meeting of the Shareholders of Bow Valley Industries Ltd. will be held in Calgary in the Mayfair Room of the Calgary Inn at 10:00 a.m.. September 29, 1977.

Cover

The interlocking system of pipes and valves, known as the "Christmas tree", on Bow Valley's gas discovery well near Airdrie, Alberta. The Christmas tree permits the field engineers to shut in, open up, or regulate the amount of gas flowing into the pipeline. This well encountered a commercial accumulation of gas at 7,800 feet in the Elkton zone, a limestone formation deposited in this area about 330 million years ago. The well will commence producing late 1977 at an initial rate of 6,000 Mcf per day; after processing and compressing to industry standards, the gas will be almost pure methane and the volume sufficient to heat 8,800 Canadian homes each day.



highlights

- Record revenue and net income.
- The emergence of Bow Valley Exploration, the oil and gas division, as a major contributor to net income.
- The completion of Brae 16/7a-8, the most successful well to date in the Brae field in the U.K. North Sea.
- The consolidation of Bow Valley's service and manufacturing operations into one wholly-owned subsidiary, Bow Valley Resource Services Ltd.

financial

Revenue in fiscal 1977 reached \$131,715,000 as compared to \$103,328,000 in fiscal 1976. Net income increased to \$4,778,000, or 87¢ per share, versus \$975,000, or 8¢ per share, a year earlier.

Cash flow increased to \$13,972,000, or \$2.89 per share, from \$7,587,000, or \$1.58 per share, in fiscal 1976.

These operating results contributed significantly to improving the financial position of Bow Valley. At the end of fiscal 1977, working capital was \$11,223,000 versus \$3,115,000 a year earlier. The major factors influencing Bow Valley's working capital during fiscal 1977 were:

Source of Funds

Cash flow	\$13,972,000
Issue of debt	16,723,000
Receipt of exploration advances	11,888,000
Other	643,000
	<hr/>
	43,226,000

Application of Funds

Capital expenditures	22,344,000
Debt retirement	11,156,000
Common dividends and other	1,618,000
	<hr/>
	35,118,000

Increase in working capital

\$ 8,108,000

Bow Valley's capital expenditure budget for fiscal 1978 is \$43,000,000, consisting of \$37,000,000 for the exploration and development division and \$6,000,000 for the service and manufacturing subsidiary.

operations

The activities of Bow Valley are conducted under two distinctive entities: Bow Valley Exploration manages the exploration and development operations while

Bow Valley Resource Services Ltd. manages the service and manufacturing operations.

BOW VALLEY EXPLORATION enjoyed a very successful year; major accomplishments were:

Exploration —

Brae 16/7a-8 was completed in July 1977 and had a combined flow of 33,122 barrels of oil per day from a gross hydrocarbon section of 1,220 feet.

Development —

In fiscal 1977, three development wells were completed in the Arzanah field, offshore Abu Dhabi in the Arabian Gulf. Oil reserves increased significantly during the year and peak production, which was previously estimated at 25,000 barrels per day, has now been increased to 35,000 barrels per day.

Production —

During fiscal 1977, gas production averaged 43,389 Mcf per day, an increase of 83 percent over the daily average of 23,704 Mcf per day in fiscal 1976. Average selling price for gas increased to \$1.05 per Mcf from 68¢ per Mcf a year earlier. These two factors are responsible for the increase in net income in fiscal 1977.

Reserves —

At May 31, 1977, Bow Valley had proven reserves of 286 billion cubic feet of gas (18-year life index) and 12 million barrels of crude oil (20-year life index).

BOW VALLEY RESOURCE SERVICES LTD. had a good increase in revenue and an improvement in income over fiscal 1976.

The Oilwell Drilling Group enjoyed a record year both in revenue and income. Bow Valley's oilwell drilling rigs in western Canada have experienced an extraordinarily high level of activity and there is every indication that rig utilization will continue at these levels for some time.

The Environmental Products Group had a good increase in revenue and the highest income in four years as the pollution control division attained a much improved performance and recorded a satisfactory income in fiscal 1977 as compared to a loss in fiscal 1976.

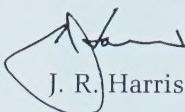
The Diamond Drilling and Oilfield Services Groups had lower income on increased revenue. The

Industrial Products Group continued to have substantial losses and represents the area of greatest concern to management. Fundamental changes in the management system have been made and cost reduction programs implemented.

outlook

We appreciate the untiring efforts of more than 2,000 employees in achieving record results in fiscal 1977. The economic, regulatory and political climate

remains generally favourable for Bow Valley's operations and an excellent year is anticipated in fiscal 1978.



J. R. Harris

President and
Chief Operating Officer


D. K. Seaman
Chairman and
Chief Executive Officer

August 19, 1977


B. J. Seaman
Vice-Chairman

Byron J. Seaman, Daryl K. Seaman, J. Richard Harris





TREVOR A. LEGGE, Vice-President, Treasurer and Controller; ROBERT J. PHIBBS, Vice-President, Administration; H. KEITH LAZELLE, Vice-President and Secretary.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF EARNINGS

FISCAL 1977 COMPARED TO FISCAL 1976

Oil and gas revenue more than doubled and income increased substantially in fiscal 1977 due to higher gas production and improved market prices. Fiscal 1977 includes a \$1,100,000 non-recurring loss on a two-year joint venture service contract in the North Sea that was terminated early in fiscal 1977.

Oilwell Drilling revenue and income increased due to the high level of oilfield activity in western Canada. This activity has been occasioned by increased oil and gas prices, availability of markets, and government incentive programs.

Oilfield Services had a substantial increase in revenue but income decreased as the pipeline construction division experienced a large loss on a water-line contract and the supply depot at Resolute Bay in the Arctic Islands had insufficient activity to absorb fixed costs.

Diamond Drilling revenue increased modestly but income decreased substantially because manufacturing facilities were doubled and the resultant cost increases produced no additional revenue. The diamond drilling industry remains very competitive and operates on low margins.

Industrial Products recorded a small increase in revenue but a higher loss in fiscal 1977 as the manufacturing divisions servicing the forest products

and mining industries in British Columbia continue to operate under depressed market conditions with low margins.

Environmental Products had a significant increase in revenue and a higher increase in income due to a substantial improvement in the pollution control division resulting from a cost reduction program. Anti-Inflation Board guidelines prohibited price increases of heating and air conditioning equipment and cost increases had to be absorbed by the division.

FISCAL 1976 COMPARED TO FISCAL 1975

Oil and gas revenue increased with improved unit prices; however, additional bank borrowings resulted in substantially higher interest costs and no increase in income. In fiscal 1976, a loss of approximately \$750,000 was incurred on a two-year joint venture service contract in the North Sea. Although the contract expired in June 1976, there will be a further loss in fiscal 1977.

Oilwell Drilling had a satisfactory increase in revenue and income in fiscal 1976 as the industry enjoyed a much improved economic climate in western Canada, and Alberta in particular. Bow Valley's equity in the ODIN DRILL continues to be a profitable investment as the semi-submersible rig has been on a continuous two-year contract since its commission in June of 1974.

Oilfield Services income decreased in fiscal 1976 due to cost escalations in the aviation services division and a substantial decrease in activity at the supply depot at Resolute Bay in the Arctic Islands.

Diamond Drilling experienced an increase in costs in fiscal 1976 and was unable to increase selling prices because of depressed economic conditions in the mining support industries.

Industrial Products experienced losses in fiscal 1976 because of depressed market conditions and numerous labour disputes in the forest products and mining industries. Both industries remain very competitive.

Environmental Products decrease in income was a result of a drastically reduced pollution control consulting market and increased costs and competition. Increased housebuilding in Alberta provided a good increase in revenue and income for the heating equipment division.

FISCAL 1975 COMPARED TO FISCAL 1974

Oil and gas losses were due to increased activity in the oil and gas division requiring increased bank borrowings and higher interest costs.

RELATIVE CONTRIBUTIONS OF LINES OF BUSINESS*

(Unaudited)
(thousands of Canadian dollars)

YEARS ENDED MAY 31

	1977		1976		1975		1974		1973	
REVENUE										
Bow Valley Exploration										
Domestic oil and gas operations	\$ 14,452	11%	\$ 7,229	7%	\$ 4,922	5%	\$ 3,427	5%	\$ 2,567	4%
Foreign oil and gas operations	135		—		—		—		—	
	14,587	11	7,229	7	4,922	5	3,427	5	2,567	4
Bow Valley Resource Services Ltd.										
Oilwell Drilling	34,079	26	26,867	26	19,666	21	20,186	28	18,105	29
Oilfield Services	31,968	24	24,181	23	26,245	28	18,436	25	17,669	29
Diamond Drilling	15,189	12	13,045	13	11,962	13	6,948	9	6,188	10
Industrial Products	25,215	19	24,277	24	23,887	25	19,160	26	12,303	20
Environmental Products	9,134	7	6,445	6	5,613	6	4,251	6	4,201	7
	115,585	88	94,815	92	87,373	93	68,981	94	58,466	95
Other	1,543	1	1,283	1	1,646	2	1,018	1	689	1
	\$131,715	100%	\$103,327	100%	\$93,941	100%	\$73,426	100%	\$61,722	100%
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS:										
Bow Valley Exploration										
Domestic oil and gas operations	\$ 5,517	68%	\$ (91)	(3)%	\$ (318)	(5)%	\$ (795)	(27)%	\$ (966)	(62)%
Foreign oil and gas operations .	(1,594)	(20)	(1,586)	(67)	(543)	(8)	(276)	(9)	(197)	(12)
	3,923	48	(1,677)	(70)	(861)	(13)	(1,071)	(36)	(1,163)	(74)
Bow Valley Resource Services Ltd.										
Oilwell Drilling	5,002	62	4,039	169	2,156	35	1,284	43	1,548	99
Oilfield Services	67	1	426	18	1,880	30	(183)	(6)	(475)	(30)
Diamond Drilling	53	1	318	13	979	16	705	24	88	5
Industrial Products	(1,636)	(20)	(1,490)	(62)	835	13	1,418	48	495	31
Environmental Products	397	5	92	4	373	5	133	4	516	33
	3,883	49	3,385	142	6,223	99	3,357	113	2,172	138
Other	272	3	676	28	879	14	697	23	561	36
	\$ 8,078	100%	\$ 2,384	100%	\$ 6,241	100%	\$ 2,983	100%	\$ 1,570	100%

* As restated to conform to 1977 presentation.

Oilfield Services increased revenue and income due to:

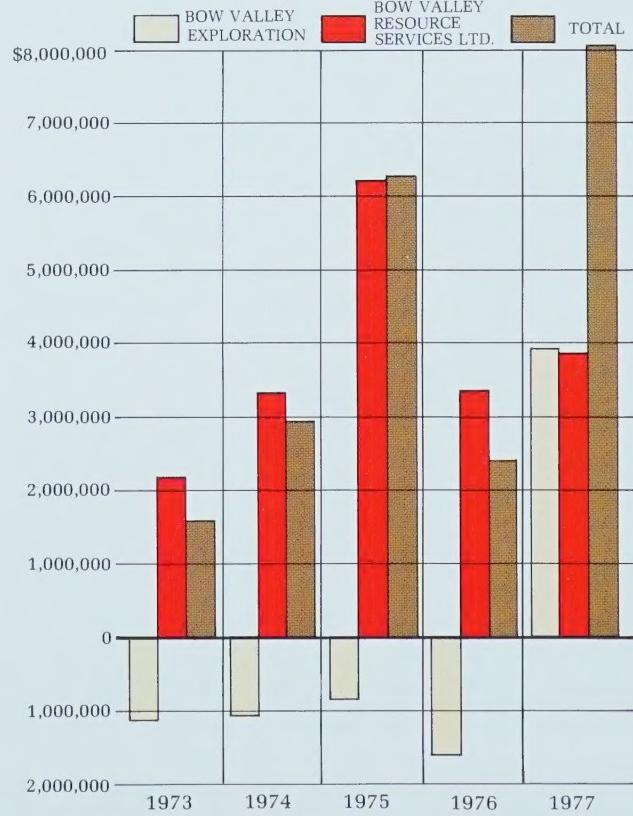
- the pipeline and plant maintenance divisions acquiring a water and sewer contract, as well as a pulp and paper plant maintenance contract.
- revenue and income from the aviation service division increased substantially owing to the strategic location of helicopters and a high level of support work for fighting forest fires.
- oilfield equipment and supplies revenue and income increased because of the availability to the supply divisions of pipe and other material that was generally in short supply.

Diamond Drilling revenue and expense increased substantially owing to the acquisition of certain of the branches of Inspiration Drilling Operations, a division of Dresser Industrial Products, Ltd., which more than doubled the number of drills Bow Valley operates.

Industrial Products revenue increased but inflationary costs more than offset the gain and a lower income was recorded.

Environmental Products had higher heating equipment revenue and expense owing to larger plant facilities and a more active selling program in the commercial and industrial markets.

**INCOME BEFORE INCOME TAXES
AND EXTRAORDINARY ITEMS**





Wandering River gas compressor station. Bow Valley is the operator for a group of companies that own the Wandering River gas field, which is about 150 miles northeast of Edmonton, Alberta. The field commenced production in 1976 and is producing 22,000 Mcf per day to local markets. Gas is gathered from 37 wells connected to 64 miles of pipeline and collected at two central compressor stations; after processing and compressing to industry standards, the gas is sold to market.

BOW VALLEY EXPLORATION



FREDERIC J. WELLHAUSER, Vice-President of Bow Valley Industries Ltd. and General Manager of Bow Valley Exploration.

Bow Valley Exploration, a division of Bow Valley Industries Ltd., conducts exploration and development programs in Canada and eight foreign countries. These activities are administered by offices in Calgary, London, and Singapore.

In the past five years, Bow Valley has participated in the drilling of 218 exploratory wells and 380

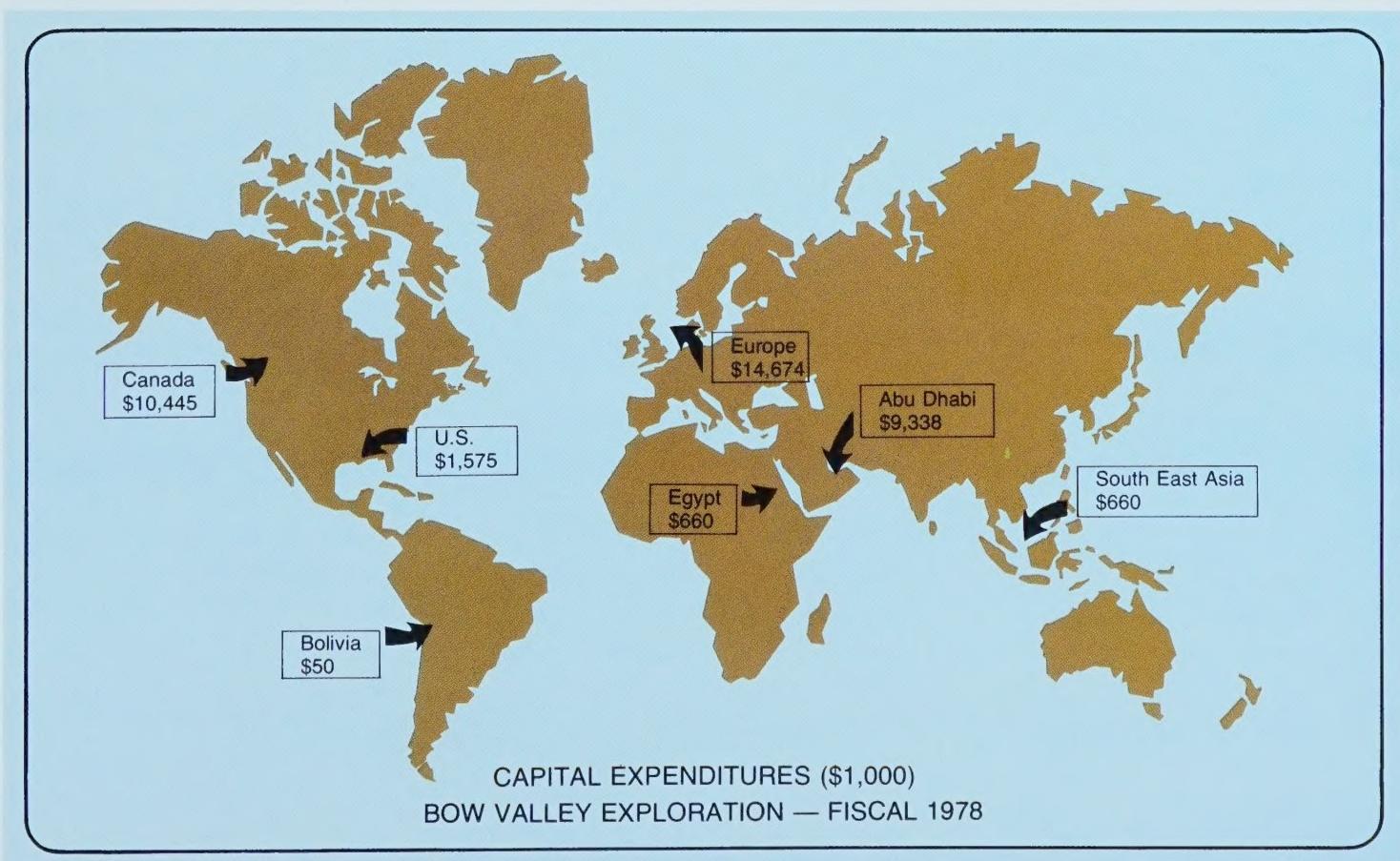
development wells. This is an average of more than two new wells each week and has resulted in a success ratio of 49 percent for all exploratory wells and 92 percent for all development wells for an overall success ratio of 76 percent.

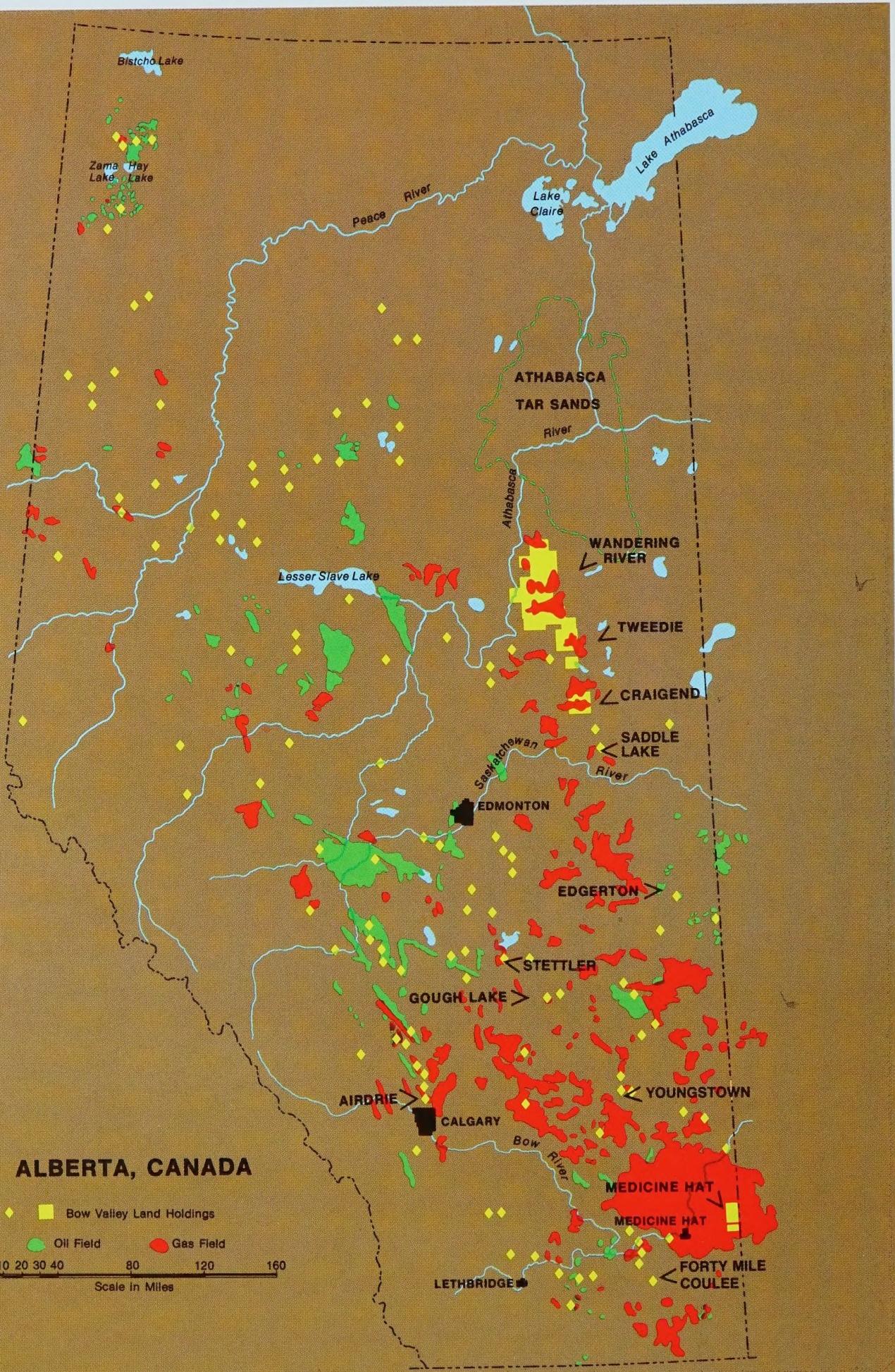
During this five-year period, Bow Valley has invested \$71 million in exploration and development, which has resulted in :

- average daily production during fiscal 1977 of 43,389 Mcf of gas and 1,689 barrels of oil and natural gas liquids.
- proven reserves at May 31, 1977, of 286 billion cubic feet of gas and 12 million barrels of oil and natural gas liquids. These reserve figures exclude any petroleum discovered at Brae, Heimdal, Garry Island, or in the Arctic Islands by Panarctic Oils Ltd.
- based on fiscal 1977 production rates, proven reserves of gas and oil as at May 31, 1977, have a life index of 18 years and 20 years, respectively.
- varying interests in more than 14 million acres of developed and undeveloped land.

In fiscal 1978 Bow Valley expects to participate in the drilling of more than 100 exploratory and development wells in nine countries and spend \$37,000,000 in the search for petroleum.

Frederic J. Wellhauser, P. Geol.





EXPLORATION



CANADA

Western Canada

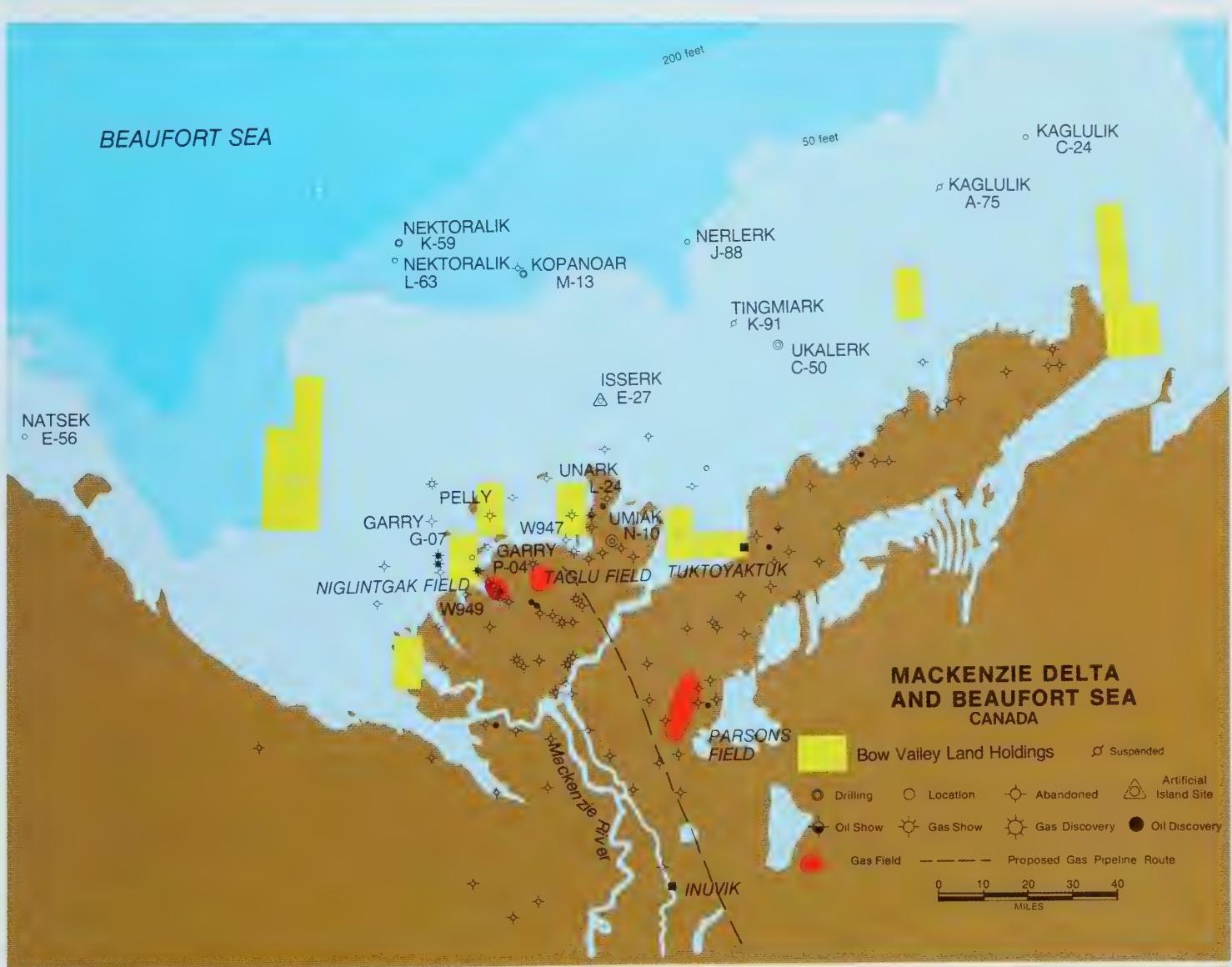
In fiscal 1977, Bow Valley participated in the drilling of 117 wells in western Canada of which 36 were exploratory wells and 81 were development wells. The success ratio was 42 percent for exploration drilling and 90 percent for development drilling for an overall success ratio of 75 percent.

The majority of the activity in western Canada during fiscal 1977 was establishing additional gas reserves in Alberta. The Wandering River field went on stream during May 1976 and fiscal 1977 represented its first full year of production. Twelve additional wells were

drilled and placed on production and further drilling is planned for the forthcoming winter. In the Tweedie field, nine deliverability wells were connected. The Forty Mile Coulee field went on stream at fiscal year-end yielding an average of 3,500 Mcf of gas per day net to Bow Valley. New production facilities commenced operations at Stettler, Bow Island, Saddle Lake, Youngstown, and S.W. Medicine Hat. Bow Valley also formed two groups to pursue land acquisitions and deeper exploratory work in northeast British Columbia and western Alberta.

Mackenzie Delta

Bow Valley has an interest in eight permits in the Mackenzie Delta. On these permits, Bow Valley entered into an agreement with Sun Oil Company Limited whereby Sun agreed to drill at least three wells, up to a possible maximum of 20 wells, to earn a 45 percent interest in all the permits. If Sun elected to drill all wells, Bow Valley's interest in the 270,000 acres would be reduced from 50 percent to 27.5 percent.



Activity on these permits has been:

- In the 1974-1975 winter drilling season, Sun drilled two wells, Unark L-24 on Permit W-947 and Pelly B-35 on Permit W-948. Both wells were abandoned after testing non-commercial quantities of natural gas.
- In the 1976-1977 winter drilling season, Sun drilled one well, Unark L-24A, from the same artificial island from which Unark L-24 was drilled two years earlier. The well was directionally drilled northeast of the original location in an attempt to encounter the gas reservoir at a higher structural level. Mechanical problems were encountered below 12,000 feet which prevented the well being drilled to a projected depth of 15,000 feet, resulting in an incomplete evaluation of the prospect. To the depth drilled, no commercial hydrocarbons were encountered. By drilling the well Sun has earned a 45 percent interest in Unark Permit W-947 reducing Bow Valley's interest to 27.5 percent.
- Under a separate agreement, Sun drilled a directional exploratory well on Permit W-949 that tested a structure straddling the common boundary with the Chevron permit on the east. The well, Garry P-04, was drilled to 11,000 feet and completed as an oil and gas discovery in 1975. Tests resulted in gas flows of 31 MMcf per

day and an oil flow of 7,920 barrels per day. In a submission to the National Energy Board concerning gas reserves in the Delta, Sun estimated that the Garry well had discovered approximately 254 billion cubic feet of natural gas. Bow Valley received at no cost a small overriding royalty interest in 1,100 acres earned in the Chevron permit by the Sun well and Sun has agreed to drill, at no cost to Bow Valley, a second well on Permit W-949. Bow Valley's interest in this permit will be reduced to 27.5 percent.

Further drilling in the Delta will depend on governmental approvals of pipelines from the area to markets in the south. The Delta permits remain in good standing and Bow Valley is confident that a favourable pipeline decision will be reached and that exploration activity will resume this winter.

Arctic Islands

Panarctic Oils Ltd. is a company formed by the Federal Government and industry to explore for oil and gas in the Arctic Islands. Bow Valley has a 1.9 percent interest in Panarctic, which represents a slight dilution from last year's holdings of 2.03 percent. Bow Valley has elected not to participate in recent share subscriptions by Panarctic.



Exploration activity in the Beaufort Sea. Bow Valley has a 12½ percent interest in nine permits consisting of 439,352 acres in the Beaufort Sea. Current drilling activity is approximately 30 miles to the northeast of Bow Valley's acreage.



ODIN DRILL - from a workboat on location in the Brae field in the U.K. North Sea.

INTERNATIONAL



UNITED KINGDOM

In the U.K. Sector of the North Sea, significant activity occurred in fiscal 1977 on Licence No. P.108 which covers Blocks 16/3a and 16/7a and Licence No. P.222 which covers Block 16/2. The Brae field was discovered in 1975 and the following is a resumé of activities since that time:

- The discovery well 16/7-1 was drilled to a depth of 15,695 feet and encountered approximately 500 feet of gross hydrocarbon section at a depth below 12,000 feet in a Jurassic sandstone. Seven selected intervals were tested that yielded a combined flow of 22,000 barrels per day with a gas-oil ratio of 3,000 cubic feet per barrel in the lower part of the section and 7,000 cubic feet per barrel in the top part of the section.
- The first Jurassic appraisal well, the 16/7-3, was drilled to a depth of 13,655 feet, 3.7 miles southwest of the Brae discovery well, and encountered approximately 1,000 feet of gross hydrocarbon section. Flow tests from four selected intervals totalled 14,000 barrels of oil per day with a gas-oil ratio of 1,600 cubic feet per barrel.
- Two appraisal wells, the 16/7a-4 and 16/7a-5, were drilled along the western flank of the Brae structure. Both wells encountered hydrocarbons but did not sustain commercial flows during tests.
- Brae 16/7a-6 was drilled to a depth of 13,760 feet, 2.0 miles south of the successful 16/7-3, and

penetrated 900 feet of gross hydrocarbon section with low permeability. Of eight production tests, four tests flowed oil at a combined rate approaching 600 barrels per day with a gas-oil ratio of 1,032 cubic feet per barrel.

- Brae 16/7a-7 was drilled to a depth of 13,435 feet, 2.0 miles north of the successful 16/7-3. A production test of a 26-foot gross hydrocarbon section flowed 1,385 barrels of oil per day with a gas-oil ratio of 9,200 cubic feet per barrel; the remainder of the reservoir was not tested but appears to be characterized by low permeability.
- Brae 16/7a-8 was drilled to a depth of 14,008 feet, 4.3 miles southwest of the successful 16/7-3. On July 26, 1977, it was announced that the well had encountered 1,220 feet of gross hydrocarbon section and flow tests from five selected zones yielded a combined flow of 33,122 barrels per day with a gas-oil ratio of 1,267 cubic feet per barrel.
- Brae 16/7a-9 was spudded on July 29, 1977, 1.0 miles northeast of the successful 16/7-3, and is presently drilling.
- The Brae 16/7a-10 location has been announced 1.0 miles east of Brae 16/7a-8.

The successful drilling results of 16/7-1, 16/7-3, and 16/7a-8 have been very encouraging but indicate the existence of different crude oil and reservoir characteristics across the Brae field. An additional drilling rig will be contracted to accelerate appraisal drilling and to permit platform and production equipment to be designed and ordered as soon as possible.

Blocks 16/2 and 16/3a have yet to be tested, although seismic information indicates that the Brae field may extend in a northeasterly direction from Block 16/7a.

In Block 16/7a, 4.7 miles west of the Brae discovery well, a separate structure was tested by the 16/7-2 well in 1975. The well was drilled to a depth of 7,997 feet and encountered, at approximately 6,000 feet, two separate Paleocene reservoirs. One reservoir had 60 feet of gross hydrocarbon section and tested 4,023 barrels of oil per day with a gas-oil ratio of 252 cubic feet per barrel; the other reservoir had 66 feet of gross hydrocarbon section and tested 8,000 Mcf of gas per day with no condensate.

Bow Valley has a 14 percent interest in Blocks 16/3a and 16/7a and a 17.5 percent interest in Block 16/2. This represents half of Bow Valley's original holdings; the other half was assigned to Ashland Oil, Inc. and The Louisiana Land and Exploration Company on these terms:

- Bow Valley received a \$7,500,000 cash payment and a \$7,500,000 non-recourse loan.
- The Ashland group committed to lend Bow Valley, on a non-recourse basis, Bow Valley's

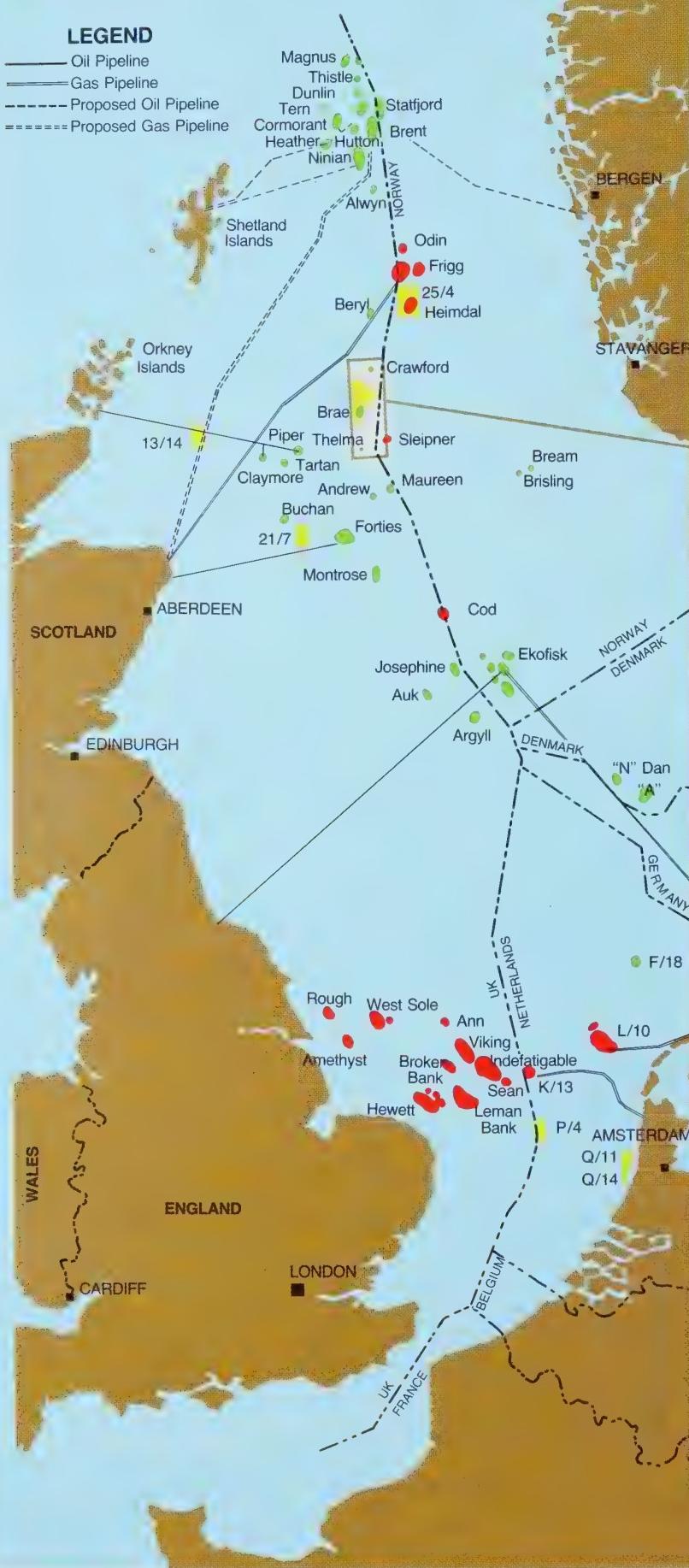
NORTH SEA

0 50 100
Scale in Miles

- Bow Valley Land Holdings
- Oil Field
- Gas Field

LEGEND

- Oil Pipeline
- Gas Pipeline
- Proposed Oil Pipeline
- Proposed Gas Pipeline



9/27 Amoco/Gas Council

9/28 Hamilton

9/29 Hamilton

16/2

16/3b

16/3a

16/7a

16/8a

Shell

16/8b

16/12

Hunt

16/13

Oceanic

16/17

Philips

16/18

LEGEND

- Location
- ◎ Drilling
- ◇ Abandoned
- ◆ Oil Show
- ★ Oil & Gas Show
- * Oil & Gas Well
- ◆ Abandoned Oil Well
- ◇ Gas Show
- ◎ Gas Well
- Oil Well

0 1 2 3 4 5
Scale in Miles

2
4
Toni
3
1
Thelma

share of any exploratory, appraisal, and development expenses. In fiscal 1977, the Ashland group advanced \$4,388,264 to Bow Valley on behalf of these expenditures.

- Loans will be recoverable by the Ashland group out of 70 percent of Bow Valley's share of net proceeds of production from the field.

During fiscal 1977, Bow Valley was a successful applicant in the fifth round of bids in the U.K. Sector of the North Sea. Bow Valley is a 19.6 percent participant with a group that was conditionally awarded Block 13/14. The block is in 350 feet of water, 100 miles north-northeast of Aberdeen and 40 miles from the Claymore and Piper producing fields.



NORWAY

Bow Valley has an eight percent interest in the

Heimdal gas and condensate field in the Norwegian Sector of the North Sea. The field was discovered in 1972. Engineering studies are underway with a view to reducing the anticipated development costs and determining the feasibility of two-phase flow through the Frigg pipeline. Frigg is a major gas field 20 miles north of Heimdal; it has two 36-inch gas lines completed to Scotland and should be on production in the fall of 1977.

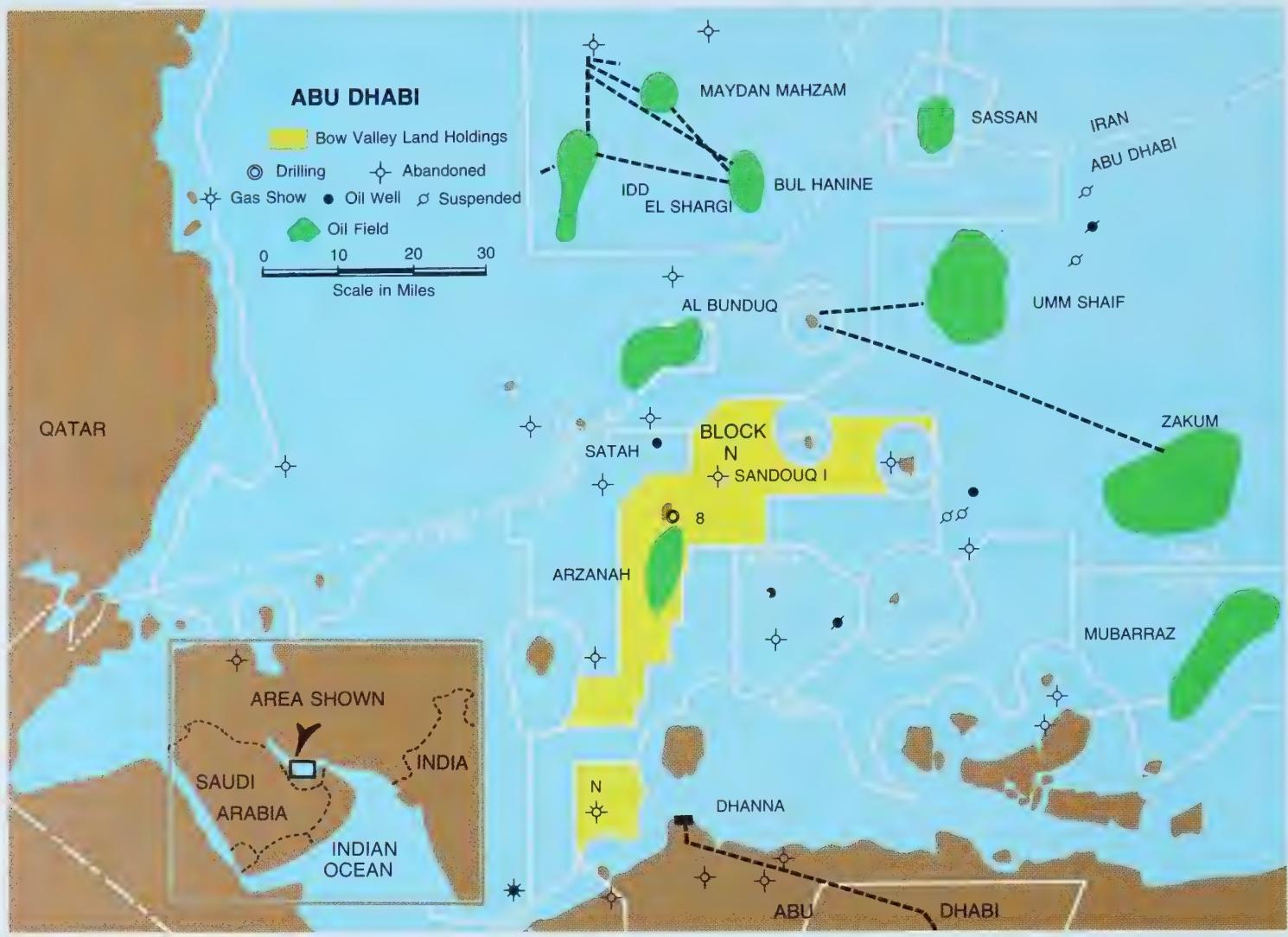


NETHERLANDS

A well was spudded on August 15, 1977, in Block P/4, 60 miles off the coast of the Netherlands in the North Sea. Mobil Oil Corporation has agreed to drill the well at no cost to the farmers. Bow Valley's interest in the property will therefore be reduced from 16.68 percent to 8.34 percent. The well will be drilled to 9,600 feet and will test the Rotliegendes (Permian) sandstones.



Oilwell drilling crew adding pipe on a Bow Valley exploratory test in Alberta.



ABU DHABI

Offshore Abu Dhabi in the Arabian Gulf, Bow Valley has a ten percent interest in the Arzanah oil field which was discovered in 1973. Seven wells have been drilled in the field testing at rates from 4,000 to 10,000 barrels of oil per day from two Upper Jurassic reservoirs. An eighth well was spudded on June 26, 1977, and is a 1.6 mile step-out to the north of the field.

The proven reserves of the two Upper Jurassic reservoirs are estimated to be 79,500,000 barrels and peak production of approximately 35,000 barrels of oil per day is anticipated by the summer of 1978. Construction of the production facilities is underway and the diagram on the following page illustrates the appearance of the completed system.

The estimated cost of the production facility is \$140,000,000 and Bow Valley has made financial arrangements for its share of the costs.

The Ruler of Abu Dhabi has an option to acquire a 50 percent interest in the field at cost, which would reduce Bow Valley's interest in the field from ten percent to five percent.

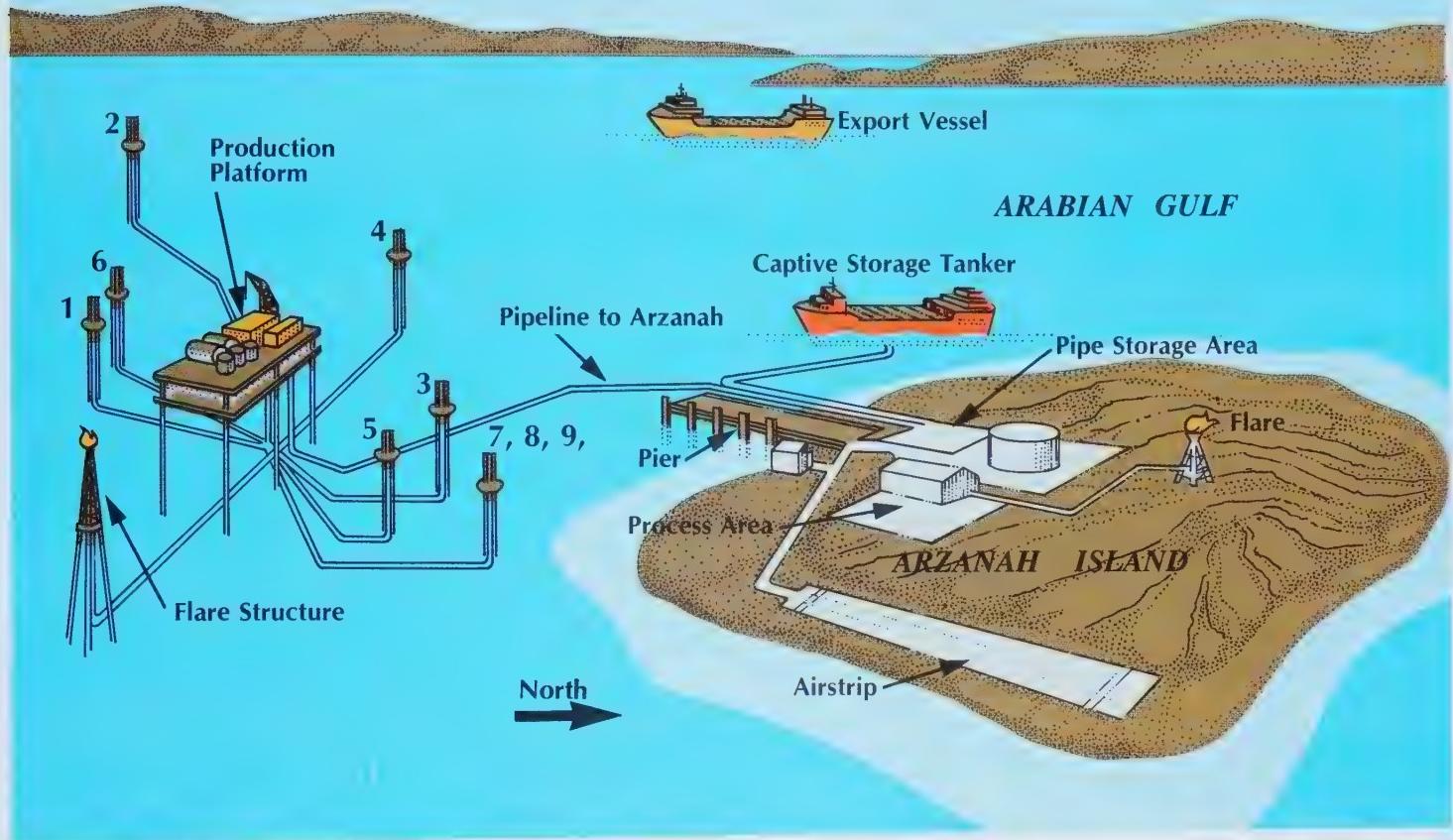


EGYPT

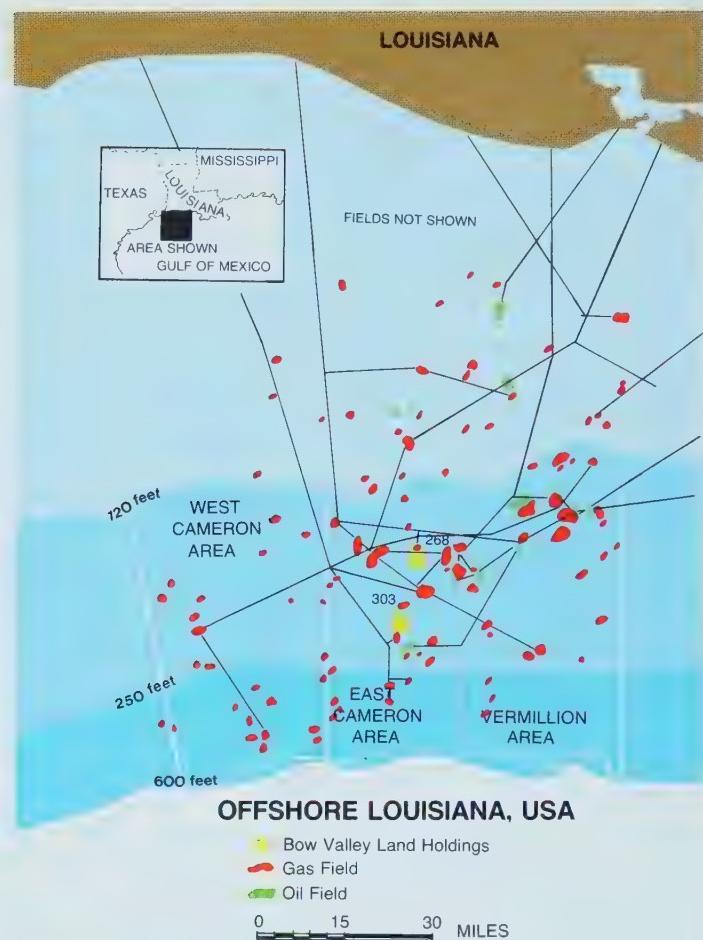
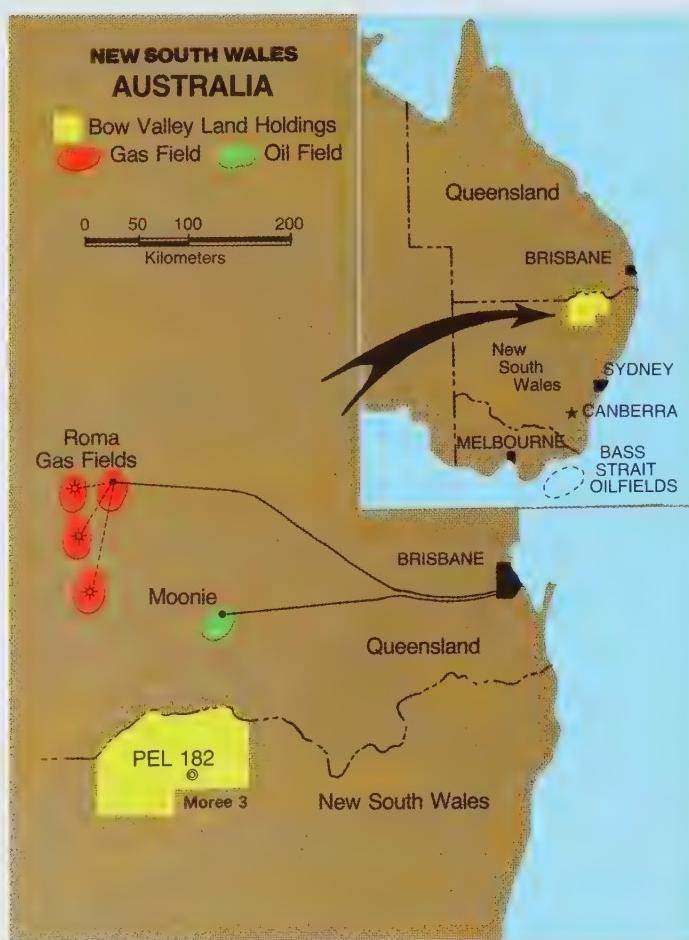
Bow Valley has a 20 percent interest in a 1,111,968-acre onshore concession east of Cairo, which calls for a three-year expenditure of \$6,000,000 including the drilling of three wells. The first exploratory well, Q-72-1X, drilled 25 miles northeast of Cairo, was abandoned in December 1976 after encountering minor gas shows.

The second commitment well, the SFME R-69-1X, has spudded and will be drilled to a depth of 9,000 feet, 15 miles west-southwest of the first well, to test the Lower Cretaceous and Upper Jurassic sections.

PROPOSED ARZANAH PRODUCTION SYSTEM



Oilwell drilling rig on Bow Valley's current exploratory test in Egypt.



AUSTRALIA

In the State of New South Wales in Australia, Bow Valley will earn a 50 percent interest in Petroleum Exploration Permit 182 consisting of 3,168,000 acres. Under the terms of the agreement with the landholders, Bow Valley must spend A \$400,000 including the cost of one 4,000-foot exploratory test to be drilled prior to December 15, 1977. The well, Moree 3, was spudded on August 15, 1977.



BOLIVIA

In the foothills of Bolivia, Bow Valley is a 25 percent participant in a joint venture that was awarded a 2,637,792-acre contract in 1975. The terms of the contract included the drilling of three wells and the expenditure of U.S. \$4,000,000. During fiscal 1977, the third commitment well was completed and all three wells were abandoned without encountering commercial hydrocarbons. Further studies of the area will be made before the joint venture decides on further exploratory activity.



THE UNITED STATES

Bow Valley is a 15 percent participant in a U.S. \$30,000,000 three-year exploratory program in the Gulf of Mexico. The first well, a 10,698-foot Pliocene test, was drilled on East Cameron Block 268 and abandoned as a dry hole in July 1977. A second well, a 9,000-foot Pleistocene test, was spudded on July 29, 1977, on East Cameron Block 303.



VIET NAM

Bow Valley was the operator of a four-party group that held two blocks offshore Viet Nam prior to the fall of the South Vietnamese government. The new government of Viet Nam declared all offshore concessions null and void and all exploration activities ceased. Bow Valley formed a new Canadian group to again pursue exploration in Viet Nam. Numerous meetings to regain the holdings have since been held in Hanoi and negotiations are continuing.

SUMMARY OF OIL AND GAS ACREAGE AS OF MAY 31, 1977
DEVELOPED AND UNDEVELOPED

Location	Type of Ownership	Types of Interests				Other Interests (3)	
		Working Interest (1)		Royalty Interest (2)			
		Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres
CANADA							
1. Alberta	Leases	1,341,526	679,057	460,076	12,760	91,457	20,311
	Petroleum & Natural Gas Reservations	6,080	6,080	—	—	—	—
	Petroleum & Natural Gas Permits	16,004	11,202	—	—	—	—
	Drilling Reservations	53,440	19,985	—	—	—	—
	Natural Gas Licences	49,920	28,488	7,680	698	—	—
	Petroleum & Natural Gas Licences	25,920	11,523	—	—	—	—
2. Arctic Islands	Exploratory Permits (4)	1,246,954	77,544*	238,728	14,557*	311,001	38,875*
3. Atlantic East Coast	Exploratory Permits	—	—	281,304	150*	—	—
4. Beaufort Sea	Exploratory Permits	439,352	17,762*	—	—	72,364	9,045*
5. British Columbia	Leases	13,545	2,208	—	—	5,221	1,175
	Petroleum & Natural Gas Permits	33,553	8,388	—	—	—	—
6. Mackenzie Delta	Exploratory Permits (5)	270,242	67,560*	—	—	270,242	16,890*
7. Manitoba	Leases (Royalty Trust)	—	—	341	12	—	—
8. Saskatchewan	Leases	14,059	7,097	2,757	38	1,696	425
9. Yukon-Northwest Territories	Exploratory Permits	96,404	24,101*	270,474	912*	—	—
	TOTAL CANADA	3,606,999	960,995	1,261,360	29,127	751,981	86,721
FOREIGN							
1. Abu Dhabi	Concession Area	389,192	38,919	—	—	—	—
2. Australia	Petroleum Exploration Licence	3,168,000	1,584,000	—	—	—	—
3. Bolivia	Service Contract	2,637,792	659,448	—	—	—	—
4. Egypt	Concession Area	1,111,968	222,394	—	—	—	—
5. Maldives Islands	Petroleum Exploration Licence	2,890,368	147,409	—	—	—	—
6. Netherlands	Exploration Licences	85,993	10,584	—	—	—	—
7. Norway	Production Licence	129,480	19,730	—	—	—	—
8. United Kingdom	Licences	162,025	28,504	—	—	—	—
	TOTAL FOREIGN	10,574,818	2,710,988	—	—	—	—
	TOTAL WORLD	14,181,817	3,671,983	1,261,360	29,127	751,981	86,721

- (1) Gross acres represent the total of the acreage in which Bow Valley has varying working interests. Net acres represent Bow Valley's interest in the gross acres.
- (2) Gross acres represent the total of the acreage in which Bow Valley has varying royalty interests. Net acres represent Bow Valley's interest in the gross acres.
- (3) Gross acres represent the total of the acreage in which Bow Valley has varying net profit and reversionary interests. Net acres represent Bow Valley's interest in the gross acres.
- (4) Excluding acreage owned by Panarctic. As of December 31, 1976, Panarctic held working interests in 77,700,000 gross permit acres and 32,300,000 net acres (net acres subject to a 10 percent net profits interest). Also, 682,746 of these permit acres are currently under application for lease. Bow Valley holds a 1.8973 percent or 829,110 shares in Panarctic.
- (5) Subject to 45 percent working interest option agreement to Sun Oil Company Limited.

* These figures have been adjusted by a reduction of 50 percent to reflect the revocation of Oil and Gas Land Order 1.1961 effective April 15, 1970.

OPERATIONS

Bow Valley's proven reserves and production figures are stated before deduction of royalties. Present Canadian Crown rates are dependent upon, and can vary significantly with, changes in price, production volumes, and other factors. Although substantial reserves of crude oil, natural gas liquids, and natural gas exist at Brae, Heimdal, Garry Island, and in Panarctic's discoveries in the Arctic Islands, Bow Valley has elected to defer taking its shares of these reserves into its accounts until development plans have been completed and approved by the respective governments. Only half of Bow Valley's Arzanah reserves are included on the assumption the Ruler will exercise his option to acquire 50 percent interest in the property.

Reserves

Bow Valley's proven reserves are as estimated by independent consultants and at May 31, 1977 were:

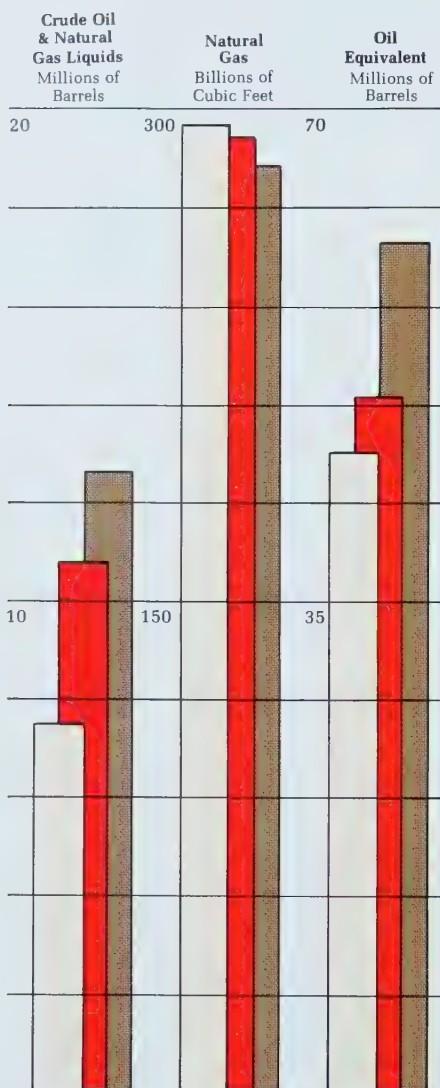
- 286,267 MMcf of gas.
- 12,356,114 barrels of crude oil and natural gas liquids.
- or 60,712,027 barrels of oil equivalent.

Comparative figures as at May 31, 1976, were 291,500 MMcf of gas and 10,861,000 barrels of crude oil and natural gas liquids or 49,414,000 barrels of oil equivalent.

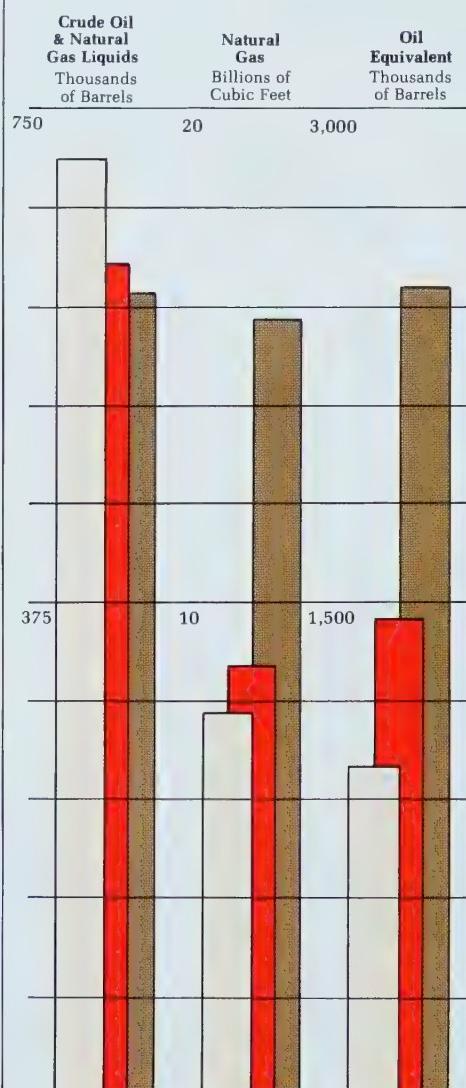
Production

During fiscal 1977, Bow Valley's petroleum production was:

Reserves



Production



Sales



1975 1976 1977

- 15,837 MMcf of gas, or an average of 43,389 Mcf per day.
- 616,468 barrels of oil and natural gas liquids, or an average of 1,689 barrels per day.
- or 2,486,244 barrels of oil equivalent or an average of 6,812 barrels per day.

In fiscal 1976, average daily production was 23,704 Mcf of gas per day and 1,732 barrels of oil and natural gas liquids per day or an average of 4,036 barrels of oil equivalent per day.

Drilling Statistics

During fiscal 1977, Bow Valley participated in drilling 128 wells, including 11 wells overseas, and excluding wells drilled by Panarctic in the Arctic Islands.

- 40 wells were drilled as exploratory tests resulting in 15 successful wells.
- 88 wells were drilled as development wells resulting in 77 successful wells.

The total overall success ratio for fiscal 1977 was 72 percent.

Capital Expenditures

Bow Valley's capital expenditures on exploration and development were \$22,981,000 in fiscal 1977.

- \$9,261,000 was expended in Canada.
- \$13,720,000 was expended outside of Canada.

In fiscal 1976, Bow Valley's total capital expenditures on exploration and development were \$18,470,000.

SUMMARY OF OIL AND GAS RESERVES AND PRODUCTION AS OF MAY 31, 1977

Location	PROVEN REMAINING RESERVES BEFORE ROYALTY AT MAY 31, 1977				FISCAL 1977 PRODUCTION BEFORE ROYALTY			
	Crude Oil NGL Bbls	Natural Gas MMcf	Oil Equivalents(1) Bbls		Crude Oil NGL Bbls	Natural Gas MMcf	Oil Equivalents(2) Bbls	
CANADA								
1. Alberta								
Tweedie	—	52,970	8,947,635		—	4,568	539,315	
Wandering River	—	70,602	11,926,014		—	4,423	522,196	
Medicine Hat	—	35,720	6,033,784		—	1,959	231,287	
Craigend-Whitefish	—	31,377	5,300,169		—	1,251	147,698	
Leafland	1,113,090	408	1,182,009		93,229	120	107,397	
Provost	964,982	137	988,124		67,034	13	68,569	
Hespero	443,891	175	473,452		50,844	27	54,032	
Others	2,792,521	91,672	18,277,656		227,030	3,313	618,175	
Total Alberta	5,314,484	283,061	53,128,843		438,137	15,674	2,288,669	
2. British Columbia								
Others	184,441	3,206	725,995		13,327	163	32,571	
3. Saskatchewan								
Rapdan	1,319,450	—	1,319,450		115,296	—	115,296	
Others	359,151	—	359,151		49,708	—	49,708	
Total Saskatchewan	1,678,601	—	1,678,601		165,004	—	165,004	
Total Canada	7,177,526	286,267	55,533,439		616,468	15,837	2,486,244	
FOREIGN								
Abu Dhabi								
Arzanah	5,178,588(3)	—	5,178,588		—	—	—	
Total	12,356,114	286,267	60,712,027		616,468	15,837	2,486,244	

(1) Conversion factor used of 5.92 Mcf/Bbl based on independent consultant's forecast of future oil, natural gas liquids, and natural gas volumes and revenues.

(2) Fiscal 1977 conversion factor was 8.47 Mcf/Bbl based on actual volumes and revenues.

(3) Assumes BVX maintains ten percent working interest until recovery of capital investment dropping to five percent thereafter to provide for the Ruler exercising his option to take a 50 percent equity interest. Independent consultant estimates of Arzanah reserves have been updated by Bow Valley.



A Bow Valley oilwell drilling rig on location in the foothills of Alberta. This deep capacity drilling rig was designed and assembled this past winter at a cost of \$5,000,000 and is reported to be the largest and most modern rig in Canada.



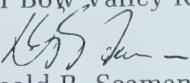
DONALD R. SEAMAN, Senior Vice-President of Bow Valley Industries Ltd. and President of Bow Valley Resource Services Ltd.

Bow Valley Resource Services Ltd. was formed at the end of fiscal 1977 to consolidate all the service and manufacturing operations of Bow Valley Industries Ltd. into one wholly-owned subsidiary company. B. J. Seaman was appointed Chairman and Chief Executive Officer and Donald R. Seaman was appointed President and Chief Operating Officer. Five groups have been established to carry out the activities of the company:

- Oilwell Drilling
- Industrial Products
- Oilfield Services
- Environmental Products
- Diamond Drilling

There are a number of economies and efficiencies that should result from this reorganization and all reports on the activities of Bow Valley Resource Services Ltd. will be based on the five operational groups of the company.

The goal for Bow Valley Resource Services Ltd. in fiscal 1978 will be to eliminate the manufacturing losses in the British Columbia-based Industrial Products Group as well as the recurrence of any losses in certain of the service and supply operations. If this can be accomplished, and the remaining groups continue to enjoy favourable results, fiscal 1978 should be an improved year for Bow Valley Resource Services Ltd.


Donald R. Seaman, P. Eng.

Oilwell Drilling

Bow Valley's Oilwell Drilling Group is one of the largest oilwell drilling contractors in Canada and also has an interest in oilwell drilling rigs in the Arctic Islands and the North Sea.

The Oilwell Drilling Group achieved record revenue and income in fiscal 1977.

Bow Valley's 35 oilwell drilling rigs in western Canada and the Mackenzie Delta have depth capacities ranging up to 20,000 feet. These rigs were particularly active this past year and, with high crew efficiency and improved contract drilling rates, provided the majority of the increased income. In fiscal 1977, these rigs drilled 776 wells for 2,566,392 feet compared to 720 wells for 2,206,328 feet in fiscal 1976.

Government incentives, improved oil and gas prices, and the recent recommendation of the National Energy Board for an earlier and an increased export of the current gas surplus in Alberta have resulted in increased capital expenditures by oil companies and a continuation of high drilling activity is expected. All rigs are under contract at the present time.

Bow Valley has a 50 percent interest in a joint venture which operates four oilwell drilling rigs in the Arctic Islands. These rigs were not profitable this past winter drilling season as activity decreased to three wells drilled for 9,195 feet from five wells drilled for 57,087 feet in fiscal 1976. Recent Federal Government announcements regarding land regulations in frontier areas could serve to stimulate activity in the Arctic Islands. Feasibility studies are underway by industry to assess the economics of exporting Arctic gas to the eastern seaboard by L.N.G. tanker. The success of such a project could also have a favourable effect on exploration activity. At the present time, three of the joint venture's four rigs are contracted for the 1977-1978 drilling season.

In the United Kingdom Sector of the North Sea, Bow Valley has a 20 percent interest in the self-propelled semi-submersible drilling rig ODIN DRILL that has been continuously employed in appraisal drilling in the Brae field during fiscal 1977. The rig has recently been awarded the drilling contract for the Brae appraisal well 16/7a-9. Minimum drilling contract rates have allowed only marginal income; however, exploratory activity in the North Sea is expected to increase with the recent award of additional licences by the U.K. Government which should prove beneficial to the offshore drilling industry.

Oilfield Services

Bow Valley's Oilfield Services Group provides a service and supply function to the oil and gas

industry, specifically in the area of pipeline and oilfield construction work, oilfield supplies, and helicopter transportation.

The Oilfield Services Group had record revenue in fiscal 1977 but income decreased substantially.

The pipeline construction division suffered a large loss on a water-line contract in Alberta. Unusual problems developed with a new internal coating technique which significantly reduced the division's gross margin for the year. There are a number of major oilfield construction programs underway and normal margins are anticipated on these contracts.

The high level of oil and gas exploration in western Canada allowed the oilfield supply division to have a successful year. This trend is expected to continue through next fiscal year. The low activity in the Arctic Islands resulted in larger than expected losses from the division's supply depot at Resolute Bay. This operation has been substantially reduced to keep any additional losses to a minimum until northern activity returns to normal.

Bow Valley's fleet of 21 helicopters operated profitably in fiscal 1977 because of better utilization of aircraft. Petroleum and mineral exploration activity and forestry work remained at a high level, and all units are under contract until the end of the fall season.

Diamond Drilling

Bow Valley's Diamond Drilling Group consists of a contract drilling operation that services the mining industry as well as a manufacturing plant for diamond bits, drills, and other related equipment. Bow Valley operates 120 underground and 151 surface drills in Canada and the United States and is the largest diamond drilling contractor in Canada.

The Diamond Drilling Group had a modest increase in revenue but a substantial reduction in income in fiscal 1977.

The diamond drilling industry continues to be very competitive with low gross margins. Increased overhead costs have been absorbed by the division as any material rate increase during the year would have created competitive disadvantages. Programs are underway to better control overhead costs and establish a more profitable business within the work that is available.

The manufacturing division that services the diamond drilling industry had an increased loss in fiscal 1977. A recent plant expansion to Phoenix, Arizona, has failed to increase revenue and costs increased because of excess capacity.

Mineral exploration activity in Canada is closely associated with the economy of the United States and, as housing starts increase and copper stockpiles disappear, the diamond drilling industry should again enjoy a better business climate.

A Bow Valley diamond drilling operation in central British Columbia.



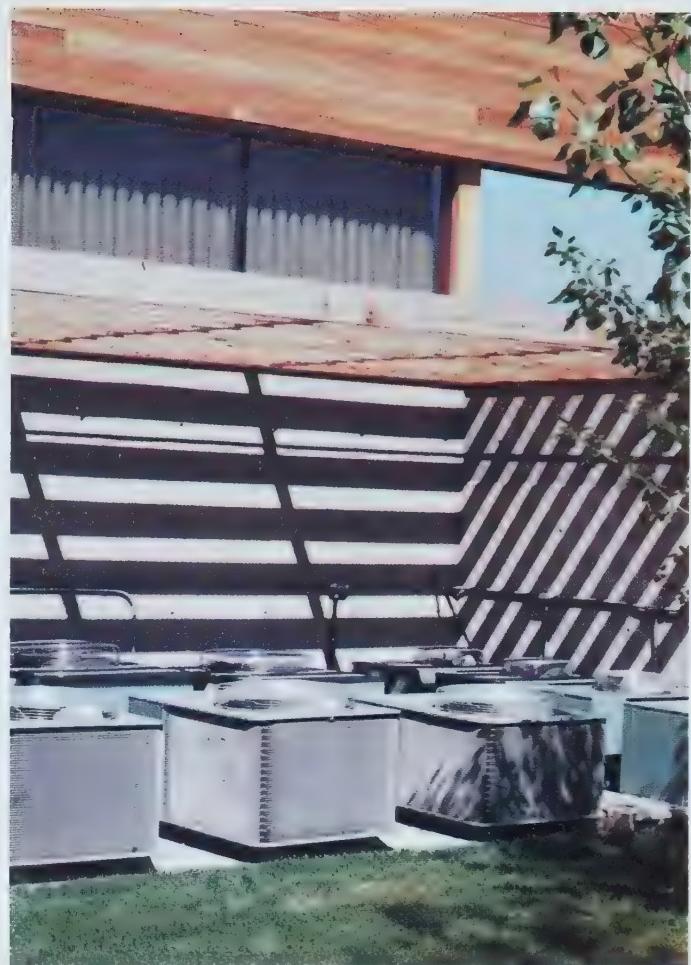
Industrial Products

Bow Valley's Industrial Products Group designs and manufactures machinery for the forest products, mining, and construction industries and custom fabricating and foundry castings. Plant facilities consist of a 160,000 square-foot building in Vancouver and seven warehouses across Canada.

The Industrial Products Group achieved record revenue but experienced a substantial loss in fiscal 1977.

The British Columbia-based manufacturing facilities continue to operate in a poor economic climate. Within the forest products industry, capital expenditures remain at a minimum which have a detrimental effect on support services. Profit margins are low and inflationary cost increases hinder management's attempts to eliminate losses.

There are signs of recovery in the industry, and any loss in fiscal 1978 should be marginal.



Environmental Products

Bow Valley's Environmental Products Group includes a pollution control operation and a manufacturing facility for heating and air conditioning equipment.

The Environmental Products Group achieved record revenue and a good increase in income in fiscal 1977.

The pollution control division had a substantial improvement in income in fiscal 1977. Revenue was increased, gross margins improved, and overheads reduced. Management is confident that this favourable trend can be maintained and is attempting to expand the market for their manufactured products.

Bow Valley's air conditioning products division had a good increase in sales volume, but restrictions placed on price increases by Anti-Inflation Board regulations reduced gross margins with a resultant decrease in profits. The manufacture and sale of residential furnaces is closely associated with housing starts in western Canada which despite temporary slowdowns show signs of long term growth, particularly in Alberta. Revenue and income for the division's industrial, commercial, and institutional air conditioning equipment had a much improved year because of a broader market area and improved customer acceptance.



Air conditioning installation in Calgary by Bow Valley's Environmental Products Division.

A process control instrument being tested at Bow Valley's laboratory facilities in Calgary.

CONSOLIDATED BALANCE SHEET

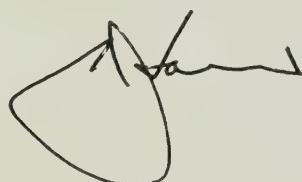
(Canadian dollars)

	<u>May 31</u>	
	<u>1977</u>	<u>1976</u>
ASSETS		
Current assets:		
Accounts receivable —		
Trade	\$ 26,004,674	\$ 16,658,460
Other	3,394,846	1,707,578
Inventories (Note 3)	15,611,807	15,692,988
Prepaid expenses	<u>1,009,010</u>	<u>813,908</u>
	<hr/>	<hr/>
	46,020,337	34,872,934
Capital assets, at cost (Note 4)	136,138,625	108,533,805
Less: Accumulated depreciation and depletion	<u>43,353,028</u>	<u>36,548,538</u>
	<hr/>	<hr/>
	92,785,597	71,985,267
Goodwill	4,771,883	4,579,492
Other assets:		
Interest in Panarctic Oils Ltd., at cost (Note 5)	2,743,972	2,743,972
Interest in foreign partnership and incorporated joint venture, at equity value	3,040,392	3,231,489
Investments in and advances to other companies and sundry assets, at cost	<u>1,172,557</u>	<u>985,955</u>
	<hr/>	<hr/>
	6,956,921	6,961,416

APPROVED BY THE BOARD:



Director



Director

\$150,534,738 \$118,399,109

LIABILITIES**May 31****1977****1976****Current liabilities:**

Operating bank loans, including cheques issued, at 10%, secured (Note 6)	\$ 10,085,527	\$ 8,213,080
Bankers' acceptances at 8%, secured (Note 6)	2,400,000	3,080,000
Accounts payable and accrued	18,820,275	12,707,072
Long term debt due within one year	<u>3,491,455</u>	<u>7,757,692</u>

Long term debt (Note 7)	34,797,257	31,757,844
Exploration and development advances (Note 8)	46,697,756	41,157,414
Deferred revenue	11,888,264	—
Provision for major overhauls	927,098	607,437
Deferred income taxes	709,620	649,954
	<u>19,515,833</u>	<u>12,104,788</u>

Shareholders' equity:

Share capital (Note 10) —		
5½% cumulative redeemable preferred shares		
series A of a par value of \$20 each —		
Authorized and issued — 100,000 shares		
Outstanding — 68,450 shares (1976 — 72,300 shares)	1,369,000	1,446,000
5% cumulative redeemable convertible second		
preference shares of a par value of \$100 each —		
Authorized, issued and outstanding —		
100,000 shares	10,000,000	10,000,000
Common shares of no par value —		
Authorized — 7,000,000 shares		
Issued and outstanding — 4,838,036 shares		
(1976 — 4,826,326 shares)	16,497,575	16,292,729
Capital redemption reserve fund, on redemption		
of preferred shares	631,000	554,000
Contributed surplus	192,420	159,854
Retained earnings (Note 11)	<u>7,308,915</u>	<u>3,669,089</u>
	<u>35,998,910</u>	<u>32,121,672</u>
Contingent liabilities and commitments (Note 13)	\$150,534,738	\$118,399,109

CONSOLIDATED STATEMENT OF INCOME

(Canadian dollars)

	<u>Year ended May 31</u>	
	<u>1977</u>	<u>1976</u>
Revenue:		
Service, supply, construction, and manufacturing	\$115,585,365	\$ 94,814,981
Oil and gas sales, less royalties	14,586,541	7,229,378
Other	<u>1,542,932</u>	<u>1,283,153</u>
	131,714,838	103,327,512
Costs and expenses:		
Direct costs	94,365,682	76,206,823
General and administrative	14,718,685	12,978,945
Interest on long term debt	5,190,187	4,137,495
Other interest	1,374,893	1,351,225
Depreciation	5,759,274	4,162,994
Depletion	2,108,535	1,904,659
Amortization of deferred charges	103,369	63,457
Mining properties abandoned	<u>16,442</u>	<u>138,506</u>
	123,637,067	100,944,104
Income before income taxes	8,077,771	2,383,408
Taxes on income (Note 9):		
Current	1,240,371	145,422
Deferred	<u>2,059,421</u>	<u>1,263,001</u>
	3,299,792	1,408,423
Net income	<u>\$ 4,777,979</u>	<u>\$ 974,985</u>
Net income per common share , based on the weighted average number of shares outstanding	<u>\$ 0.87</u>	<u>\$ 0.08</u>

CONSOLIDATED STATEMENT OF CHANGES IN COMPONENTS OF WORKING CAPITAL

(Canadian dollars)

	<u>Year ended May 31</u>	
	<u>1977</u>	<u>1976</u>
Increase (decrease) in current assets:		
Accounts receivable —		
Trade	\$ 9,346,214	\$ (936,072)
Other	1,687,268	730,168
Inventories	(81,181)	1,188,131
Prepaid expenses	195,102	(258,888)
Net increase in current assets	<u>11,147,403</u>	<u>723,339</u>
Increase (decrease) in current liabilities:		
Operating bank loans, including cheques issued	1,872,447	2,269,610
Bankers' acceptances	(680,000)	(600,000)
Accounts payable and accrued	6,113,203	(942,788)
Estimated income taxes payable	—	(714,640)
Long term debt due within one year	(4,266,237)	2,295,315
Net increase in current liabilities	<u>3,039,413</u>	<u>2,307,497</u>
Increase (decrease) in working capital	<u><u>\$ 8,107,990</u></u>	<u><u>\$(1,584,158)</u></u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Canadian dollars)

	<u>Year ended May 31</u>	
	<u>1977</u>	<u>1976</u>
Balance at beginning of year		
Balance at beginning of year	\$ 3,669,089	\$ 3,826,239
Net income for the year	<u>4,777,979</u>	<u>974,985</u>
	<u><u>8,447,068</u></u>	<u><u>4,801,224</u></u>
Deduct:		
Dividends paid —		
5½% preferred shares series A	77,659	81,483
5% second preference shares	500,000	500,000
Common shares (\$0.10 per share)	483,494	479,652
Amount transferred to capital redemption reserve fund, pursuant to The Companies Act of Alberta	<u>77,000</u>	<u>71,000</u>
	<u><u>1,138,153</u></u>	<u><u>1,132,135</u></u>
Balance at end of year	<u><u>\$ 7,308,915</u></u>	<u><u>\$ 3,669,089</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Canadian dollars)

	<u>Year ended May 31</u>	
	<u>1977</u>	<u>1976</u>
Source of working capital:		
Operations —		
Net income	\$ 4,777,979	\$ 974,985
Add: Net total of non-cash items including depreciation, depletion, mining properties abandoned, amortization of deferred charges, gains or losses on disposals of capital assets, deferred income taxes, and income of foreign partnership and incorporated joint venture	9,771,895	7,193,675
Working capital provided from operations	14,549,874	8,168,660
Share capital issued	204,846	649,578
Issue of long term debt	16,722,944	20,464,603
Exploration and development advances	11,888,264	—
Other	437,741	843,673
	43,803,669	30,126,514
Application of working capital:		
Additions to capital assets —		
Land, buildings, drilling and other equipment	11,498,101	6,349,755
Oil and gas properties and equipment and mining properties	22,981,282	18,469,970
Less: Proceeds of disposals	34,479,383	24,819,725
	12,134,982	2,839,958
	22,344,401	21,979,767
Repayment of long term debt and change in current portion	11,155,657	7,263,574
Investment in and advances to other companies	298,309	—
Increase in investment in foreign partnership and incorporated joint venture	358,228	935,238
Dividends paid	1,061,153	1,061,135
Other	477,931	470,958
	35,695,679	31,710,672
Increase (decrease) in working capital	8,107,990	(1,584,158)
Working capital at beginning of year	3,115,090	4,699,248
Working capital at end of year	\$11,223,080	\$ 3,115,090

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 1977

1. Summary of accounting policies:

The following accounting principles and practices of Bow Valley Industries Ltd. and subsidiary companies ("Bow Valley") are set forth to facilitate the understanding of data presented in the financial statements.

Principles of consolidation —

The consolidated financial statements include the accounts of Bow Valley Industries Ltd. and its subsidiaries, all of which are wholly-owned, as well as Bow Valley's share of assets and liabilities, revenues and expenses of two partnerships. Bow Valley's 50 percent interest in an incorporated joint venture and a 20 percent foreign partnership interest are accounted for by the equity method, and the results of their operations are included in other income in the consolidated financial statements on the basis of December 31, 1976 financial statements, which is the year end of both entities.

Capital assets (excluding oil and gas properties) and depreciation —

Depreciation of drilling and related equipment is calculated by the diminishing balance method, mainly at the rate of 20 percent; oil and gas well and battery equipment by the straight-line method mainly at the rate of 10 percent; manufacturing, sales and service equipment by the diminishing balance method, mainly at the rate of 20 percent; helicopters and related equipment by the straight-line method mainly at the rate of 10 percent of cost less an estimated residual value equal to 40 percent of cost; buildings by the diminishing balance method at rates from 2½ percent to 7½ percent.

Additions, improvements and repairs and maintenance that significantly add to productive capacity or extend the life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to income as incurred. Investment tax credits have been applied to reduce the cost of the related fixed assets.

Oil and gas properties and depletion —

Bow Valley follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized and charged against earnings as set out below. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. The costs are accumulated in cost centres as follows:

- (i) North America — Canada and the United States except areas north of 60° N and offshore North American Continent.
- (ii) Frontier North America — North of 60° N and offshore North American Continent.
- (iii) Europe — United Kingdom and Continental Europe including its Continental Shelf which presently encompasses all sectors of the North Sea, Celtic Sea and English Channel.
- (iv) North Africa and the Middle East — Encompassing Abu Dhabi, Iraq, Iran, Saudi Arabia, Egypt, and adjacent areas.
- (v) Other areas — A separate cost centre is established for each additional foreign area in which the Company is engaged in exploration activities.

Costs accumulated in producing cost centres (at present only North America) are depleted using the unit of production method based upon estimated proven reserves of oil and gas. In calculating depletion, natural gas and sulphur reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

Expenditures in non-producing cost centres are amortized by the straight-line method over ten years or until sufficient reserves are established to warrant economically commercial production, at which time amortization ceases. When production commences, costs are depleted by the unit of production method. If exploration is discontinued in a cost centre the unamortized costs in that area will be charged against income (included in depletion).

No gains or losses are ordinarily recognized upon the sale or disposition of oil or gas properties held for development purposes except under circumstances which result in a major disposal of reserves.

Capitalization of interest —

Bow Valley follows the policy of capitalizing interest where the related financing can be specifically identified with the acquisition, construction or development of major capital assets. When such assets commence operations subsequent interest costs are charged against earnings. During 1977 a total of \$434,834 of interest charges were capitalized (1976 — Nil).

Goodwill —

Goodwill acquired prior to fiscal 1972 in the amount of \$3,920,752 is shown in the consolidated financial statements at cost. Management believes there are no reasons to expect any significant decrease in the value of this intangible asset and accordingly does not contemplate any amortization. Goodwill acquired subsequent to fiscal 1971 is being amortized over 20 years using the straight-line method.

Provision for major overhauls —

The provision for major overhauls relates to Bow Valley's helicopter operations and is calculated on the basis of hours of aircraft operation. Actual costs, when incurred, are charged against such provision.

Translation of foreign currencies —

The financial statements of U.S. subsidiary companies are included in the consolidated financial statements on the basis of \$1 Cdn. equals \$1 U.S.

Financial statements of other foreign operations are translated on the following basis:

Current assets and liabilities — At year end rates of exchange except for materials and supplies held for use in oil and gas exploration activities, which are translated at historical rates.

Other assets and liabilities — At historical rates, except for long term debt which is translated at current rates.

Revenue and expense items — At average rates of exchange throughout the year except for depreciation and depletion, which are converted at the rate of exchange applicable to the related assets.

2. Change in accounting policy:

During fiscal 1976 Bow Valley modified its full cost method of accounting for oil and gas operations by forming separate cost centres for significant areas of interest outside of North America and for Frontier North America (Arctic and offshore). Prior to this change Bow Valley followed the full cost method of accounting using only one cost centre. This change, which has been adopted retroactively, had the effect of decreasing net income for fiscal 1976 by \$327,000 (\$.07 per share).

3. Inventories:

Inventories, which are valued at the lower of cost or net realizable value, consist of the following:

	1977	1976
Finished goods	\$ 7,025,445	\$ 7,116,888
Work in progress	1,211,624	2,130,814
Raw materials	2,771,765	2,083,896
Materials and supplies	4,602,973	4,361,390
	<hr/> <u>\$15,611,807</u>	<hr/> <u>\$15,692,988</u>

Certain 1976 inventory amounts have been reclassified to conform with 1977 presentation.

4. Capital assets:

	1977	1976		
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
Land	\$ 750,629	\$ —	\$ 750,629	\$ 685,577
Buildings	4,525,606	1,124,774	3,400,832	3,537,991
Leasehold improvements	859,942	437,828	422,114	543,313
Office equipment	1,148,706	648,229	500,477	439,967
Automotive equipment	2,824,228	1,649,140	1,175,088	1,128,806
Drilling and related equipment	27,894,385	14,879,103	13,015,282	7,296,492
Manufacturing plant and equipment	4,125,241	2,206,734	1,918,507	2,023,235
Helicopters and related equipment	3,492,411	985,830	2,506,581	2,454,440
Construction equipment	3,824,471	2,230,630	1,593,841	999,182
Other equipment	805,649	430,060	375,589	417,222
Oil and gas properties	72,504,368	14,360,247	58,144,121	45,416,165
Production equipment	13,382,989	4,400,453	8,982,536	7,042,877
	<hr/> <u>\$136,138,625</u>	<hr/> <u>\$43,353,028</u>	<hr/> <u>\$92,785,597</u>	<hr/> <u>\$71,985,267</u>

5. Interest in Panarctic Oils Ltd.:

Panarctic Oils Ltd. shares are closely held, are not generally traded and have no quoted market value. In the opinion of management the fair value of Bow Valley's interest exceeds cost.

6. Bank loans and bankers' acceptances:

Operating bank loans and bankers' acceptances are secured by a \$2,000,000 floating charge demand debenture on the current assets of a subsidiary and various chattel mortgages. In addition, Bow Valley has granted the bank general assignments of accounts receivable and pledged certain inventories under Section 88 of The Bank Act.

There are no specific repayment terms for short term bank indebtedness. During the year ended May 31, 1977 the average amount of operating bank loans and bankers' acceptances outstanding was \$4.1 million (maximum \$4.2 million) and the weighted average interest rate was 8.5 percent. Bow Valley has an established line of credit with their bankers which covers short term bank borrowings of which approximately \$2.0 million was unused at May 31, 1977. Bow Valley has an unused line of credit related to long term borrowings amounting to \$15.6 million.

7. Long term debt:

	<u>1977</u>	<u>1976</u>
Bow Valley Industries Ltd.:		
7 percent Sinking Fund Debentures Series "A" due March 1, 1986, redeemable with annual sinking fund instalments of \$158,000 in each of the years 1978 to 1985 inclusive (Authorized — \$4,000,000)	\$ 2,241,000	\$ 2,394,000
Bank loans, at current interest rates — prime plus 1 to 1½ percent, repayable at the rate of \$170,000 per month to May 1979 and \$500,000 per month thereafter, secured by chattel mortgages on equipment*	8,251,941	2,964,633
Bank production loans, at current interest rates — prime plus ¾ percent, repayable beginning 1980 at approximately \$4,000,000 per annum, secured by assignments on certain oil and gas properties*	33,795,000	38,185,000
Other	156.785	102,240
	<u>44,444,726</u>	<u>43,645,873</u>
Subsidiaries:		
Bank loans, at current interest rates — prime plus 1 to 1½ percent, repayable at the rate of \$107,000 per month, secured by parent company (Bow Valley Industries Ltd.) guarantee and by chattel mortgages on equipment*	3,995,967	4,431,928
Other	1,748.518	837,305
	<u>5,744,485</u>	<u>5,269,233</u>
Total long term debt	50,189,211	48,915,106
Less: Amount due within one year	3,491,455	7,757,692
	<u>\$46,697,756</u>	<u>\$41,157,414</u>

* The terms of the bank loans provide for repayments over varying periods of time; however, the banks reserve the right to call the loans on demand. The 7 percent Sinking Fund Debenture Series A are secured by a first floating charge on all of Bow Valley's undertakings subject to permitted encumbrances.

The aggregate maturities of long term debt in each of the five years subsequent to May 31, 1977 are as follows:
1978 — \$3,491,455; 1979 — \$3,615,984; 1980 — \$7,272,976; 1981 — \$7,853,587; and 1982 — \$6,173,806.

Certain 1976 amounts have been reclassified to conform to 1977 presentation.

8. Exploration and development advances:

During fiscal 1977 Bow Valley received certain advances in connection with the exploration and development of the Brae field in the U.K. North Sea. These advances bear interest at 6.75 percent per annum and the advances and interest are payable solely out of 70 percent of Bow Valley's share of net proceeds of production from the Brae field when and if commercial production is obtained.

9. Income taxes:

In fiscal 1977 total tax expense recorded in the financial statements amounted to \$3,299,792 (an effective rate of 40.9 percent) which is less than the amount of \$3,797,000 computed by applying the Canadian corporate tax rate for the year ended May 31, 1977 to 47 percent to income before provision for income taxes.

In fiscal 1976 total tax expense recorded in the financial statements amounted to \$1,408,423 (an effective rate of 59.1 percent) which exceeds the amount of \$1,134,000 computed by applying the Canadian corporate tax rate for the year ended May 31, 1976 of 47.6 percent to income before provision for income taxes.

These differences are accounted for as follows:

	\$ (thousands)	
	<u>1977</u>	<u>1976</u>
Computed income tax expense	\$3,797	\$1,134
Add (deduct):		
Crown charges disallowed for tax purposes	3,099	1,477
Operating losses of subsidiary companies against which no tax credits are reflected	489	818
Deduction for tax purposes in respect of investment in Panarctic Oils Ltd.	—	(216)
Resource profits rate reductions	(3,013)	(888)
Provincial resource industry rebates	(1,255)	(963)
Other	183	46
Tax expense reflected in the accounts	<u>\$3,300</u>	<u>\$1,408</u>

The deferred income tax expense of \$2,059,421 (1976 — \$1,263,001) results from timing differences in the recognition of revenues and expenses for tax and financial statement purposes. The main components of these differences, and the tax effect thereof, are as follows:

	\$ (thousands)	
	<u>1977</u>	<u>1976</u>
Excess of capital cost allowance for tax purposes over depreciation	\$1,411	\$ 767
Excess of drilling and exploration expenditures for tax purposes over depletion	568	1,202
Accounting losses for which tax credits are utilized (recognized)	317	(215)
Other	(237)	(491)
	<u>\$2,059</u>	<u>\$1,263</u>

At May 31, 1977, subsidiary companies had tax losses of \$878,000, which expire at varying dates to 1982, available to carry forward against future taxable incomes. In addition there are capital cost allowances and drilling and exploration costs available for tax purposes in certain subsidiaries in excess of the related net book value of such expenditures for accounting purposes in the amount of \$1,874,000. No provision has been made in the accounts for possible future tax benefits which may arise from these items.

10. Share capital and share options:

Bow Valley is required to expend \$40,000 per year (or such lesser amount as would increase the fund to \$80,000) on a series A preferred share purchase fund for the redemption or retirement of its 5½ percent cumulative redeemable preferred shares series A, provided such shares are available in the open market for purchase at a price not exceeding their par value plus reasonable cost of acquisition. The series A preferred shares are subject to redemption at any time at \$21 per share. On liquidation, dissolution or winding up they rank prior to the common and second preference shares and holders are entitled to receive \$21 per share plus accrued unpaid dividends.

The 5 percent cumulative redeemable convertible second preference shares of a par value of \$100 each are convertible at any time prior to April 2, 1979, into common shares at an initial conversion price of \$30 per common share (3⅓ common shares for one preference share). These shares rank junior to the series A preferred shares and are subject to redemption at \$105 per share, plus accumulated unpaid dividends, except that during the period to April 1, 1979 redemptions are subject to deferral under certain conditions.

On or before March 31, in each year, commencing with the year 1980, Bow Valley is required to set aside as a sinking fund an amount equal to 5 percent of the par value of the second preference shares outstanding at the close of business on April 1, 1979 for the purpose of either redeeming or purchasing the shares.

The following table sets out the change in issued common share capital during the two years ended May 31, 1977:

	Number of shares	Amount
Balance at May 31, 1975	4,792,726	\$15,643,151
Shares issued for cash upon exercise of options	33,600	649,578
Balance at May 31, 1976	4,826,326	16,292,729
Shares issued for cash upon exercise of options	11,710	204,846
Balance at May 31, 1977	<u>4,838,036</u>	<u>\$16,497,575</u>

Of the authorized but unissued common shares, 482,388 were reserved at May 31, 1977 for the following:

- (a) Options granted, or to be granted, up to an aggregate of 149,055 common shares of Bow Valley to officers and employees of Bow Valley under the terms of the Bow Valley Industries Ltd. Incentive Stock Option Plan.

(b) 5 percent cumulative redeemable convertible second preference shares convertible initially into 333,333 common shares of Bow Valley.

As at May 31, 1977, the details of common shares under option are as follows:

Date granted	Number of shares	Option price		Market value at date of grant	
		Per share	Total	Per share	Total
December 11, 1972	1,900	\$41.09	\$ 78,071	\$43.25	\$ 82,175
June 6, 1973	16,900	25.18	425,542	26.50	447,850
May 29, 1974	27,700	17.81	493,337	18.75	519,375
April 22, 1975	34,400	15.08	518,752	15.87	545,928
June 4, 1976	12,000	24.12	289,440	24.12	289,440
	92,900		\$1,805,142		\$1,884,768

The following table sets out details regarding options exercised during the two years ended May 31, 1977:

Date granted	Number of shares	Option price		Market value at date of exercise	
		Per share	Total	Per share	Total
Year ended May 31, 1976:					
February 23, 1971	3,650	\$16.03	\$ 58,510	\$17.38 to 18.50	\$66,581
November 30, 1971	14,400	23.87	343,729	25.25 to 26.63	366,000
June 6, 1973	150	25.18	3,777	25.50	3,825
May 29, 1974	4,150	17.81	73,912	25.00 to 27.50	107,025
April 22, 1975	11,250	15.08	169,650	17.75 to 27.50	277,100
	33,600		\$649,578		\$820,531
Year ended May 31, 1977:					
June 14, 1971	250	\$21.61	\$ 5,403	\$22.75	\$ 5,688
November 30, 1971	560	23.87	13,367	24.38 to 25.25	14,000
May 29, 1974	7,950	17.81	141,590	19.13 to 26.75	179,700
April 22, 1975	2,950	15.08	44,486	19.38 to 26.75	71,838
	11,710		\$204,846		\$271,226

Options are exercisable within a period of five years from the date of grant or one year from the date of death of an optionee or within three months of termination of employment due to permanent disability or retirement under a Company retirement plan. The value assigned to the shares on the exercise of options is the option price multiplied by the number of shares issued. No charges are made against income.

11. Restrictions on dividends:

Under the terms of the Trust Deed for the 7 percent Sinking Fund Debentures Series A of Bow Valley Industries Ltd. and the terms of the Series A preferred shares, dividends on common shares shall not be declared or paid:

- (a) If after giving effect to such declaration or payment, the aggregate of the consolidated retained earnings and capital surplus will be less than \$3,000,000; and
- (b) unless after giving effect to such dividends the amount of the consolidated retained earnings will be at least 125 percent of the par value of all the Series A preferred shares and all preferred shares ranking in priority thereto or equally therewith then issued and outstanding.

At May 31, 1977 approximately \$5,132,000 of the consolidated retained earnings, capital redemption reserve fund and contributed surplus were free of these restrictions.

12. Remuneration of directors and senior officers:

During fiscal 1977, there were 11 directors and 13 officers of whom five were also directors (1976 — 11 directors and 13 officers, of whom five were also directors). Directors' fees and officers' remuneration for the year amounted to \$24,750 and \$790,565 respectively (1976 — \$18,334 and \$750,805 respectively). Officers who are also directors receive no remuneration in their capacity as directors.

13. Contingent liabilities and commitments:

At May 31, 1977 Bow Valley was contingently liable as follows:

- (a) For the liabilities of the co-owners in the joint ventures and partnerships, but against which Bow Valley would have a claim against the other co-owners and the interest of the co-owners in the joint venture and partnership assets.
- (b) As guarantor of the indebtedness of third parties and discounted conditional sales contracts in the amount of approximately \$4,000,000.

There are outstanding claims against a subsidiary (Bow Helicopters Ltd.) in the amount of approximately \$650,000 relating to an accident in July 1969. Counsel for the insurers have taken the position that these do not fall within the coverage afforded by the applicable liability policies, but this position has been disputed. Bow Valley's legal counsel is of the opinion that the subsidiary has a meritorious defence and should prevail at trial.

14. Anti-inflation program:

Bow Valley (with the exception of its oil and gas operations and its foreign branches and subsidiaries) is subject to, and believes it has complied with, controls on prices, profits, compensation and dividends under the anti-inflation program.

15. Replacement cost information (unaudited):

In accordance with a requirement of the United States Securities & Exchange Commission, Bow Valley has provided data showing the estimated replacement cost of property (excluding mineral resources assets which amount to approximately 63 percent of the total property) and inventory together with the related effect on income which is presented in Bow Valley's 1977 Form 10K (available upon request) and which will be filed with the Commission in Washington, D.C.

16. Quarterly financial information (unaudited):

Price Waterhouse & Co. carried out a limited review with respect to the fiscal 1977 quarterly financial information, but did not carry out a similar review of the fiscal 1976 information.

	<u>Year ended May 31</u>	
	<u>1977</u>	<u>1976</u>
Revenue:		
First quarter	\$ 32,947,813	\$ 24,208,045
Second quarter	33,392,492	26,481,677
Third quarter	31,781,028	27,369,243
Fourth quarter	33,593,505	25,268,547
	<hr/>	<hr/>
	\$131,714,838	\$103,327,512
Net income (loss):		
First quarter	\$ 966,401	\$ 779,275
Second quarter	421,629	178,732
Third quarter	1,548,619	259,120
Fourth quarter	1,841,330	(242,142)
	<hr/>	<hr/>
	\$ 4,777,979	\$ 974,985
Per common share:		
First quarter	\$ 0.17	\$ 0.13
Second quarter	0.06	0.01
Third quarter	0.29	0.02
Fourth quarter	0.35	(0.08)
	<hr/>	<hr/>
	\$ 0.87	\$ 0.08

AUDITORS' REPORT

To the Shareholders of
Bow Valley Industries Ltd.

We have examined the consolidated balance sheet of Bow Valley Industries Ltd. and subsidiary companies as at May 31, 1977 and 1976 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at May 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

CALGARY, Alberta
July 8, 1977

Price Waterhouse & Co.
Chartered Accountants

FIVE YEAR SUMMARY

May 31, 1977 (thousands of Canadian dollars, except for per share amounts)

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Revenue	\$131,715	\$103,328	\$ 93,941	\$ 73,426	\$ 61,722
Costs and expenses					
Direct costs	94,367	76,207	67,055	54,230	46,334
General and administrative	14,719	12,978	11,125	8,181	7,198
Depreciation, depletion and amortization of deferred charges	7,971	6,131	5,609	5,499	5,064
Mining properties abandoned ..	16	139	91	37	75
Interest — On long term debt ..	5,190	4,138	2,766	1,669	1,025
— Other	1,375	1,351	1,054	827	456
	<u>123,638</u>	<u>100,944</u>	<u>87,700</u>	<u>70,443</u>	<u>60,152</u>
	<u>8,077</u>	<u>2,384</u>	<u>6,241</u>	<u>2,983</u>	<u>1,570</u>
Taxes on income					
Current	1,240	146	834	449	225
Deferred	2,059	1,263	2,827	1,207	531
	<u>3,299</u>	<u>1,409</u>	<u>3,661</u>	<u>1,656</u>	<u>756</u>
Income before extraordinary items	4,778	975	2,580	1,327	814
Extraordinary items	—	—	277	—	66
Net income	<u>\$ 4,778</u>	<u>\$ 975</u>	<u>\$ 2,857</u>	<u>\$ 1,327</u>	<u>\$ 880</u>
Deduct — Preferred share dividend requirements	578	581	586	589	592
Net income applicable to common shares	<u>\$ 4,200</u>	<u>\$ 394</u>	<u>\$ 2,271</u>	<u>\$ 738</u>	<u>\$ 288</u>
Weighted average shares outstanding	4,833,725	4,794,668	4,771,822	4,768,873	4,759,683
PER COMMON SHARE					
Income before extraordinary items	\$ 0.87	\$ 0.08	\$ 0.42	\$ 0.15	\$ 0.05
Extraordinary items	—	—	0.06	—	0.01
Net income	<u>\$ 0.87</u>	<u>\$ 0.08</u>	<u>\$ 0.48</u>	<u>\$ 0.15</u>	<u>\$ 0.06</u>
Dividends per share					
Common	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
Preferred, series A	1.10	1.10	1.10	1.10	1.10
Second preference	5.00	5.00	5.00	5.00	5.00

SHAREHOLDERS INFORMATION

Stock Price

The following table indicates the quarterly high bid and low bid prices for the common stock of Bow Valley on The Toronto Stock Exchange for the last two years.

	<u>Fiscal 1977</u>	<u>Fiscal 1976</u>
First Quarter\$27 ¹ / ₂	\$22 ¹ / ₈
Second Quarter	25 ¹ / ₄	18 ¹ / ₄
Third Quarter	24 ¹ / ₂	19 ¹ / ₈
Fourth Quarter	21	16
		28 ³ / ₄
		16 ³ / ₈

Common Shareholder Distribution — May 31, 1977

	<u>Number of Shares</u>	<u>Percent</u>
Canada	3,306,541	68.4
United States	1,385,587	28.6
Other	146,108	3.0
	<u>4,838,236</u>	<u>100.0</u>



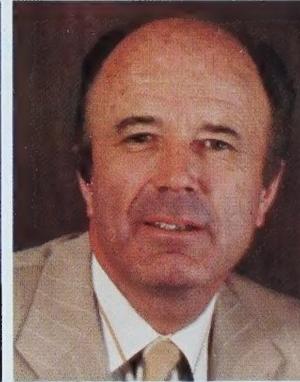
FREDERIC J. AHERN



H. DONALD BINNEY



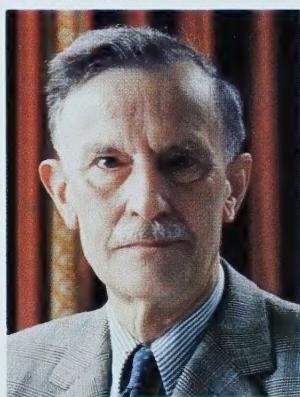
R. GUY GODBOUT



JAMES S. GRAHAM



J. RICHARD HARRIS

MAJOR GENERAL
LORD MICHAEL FITZALAN HOWARD,
KCVO, CB, CBE, MC, DL.

WILLIAM A. HOWARD, QC.



BYRON J. SEAMAN



DARYL K. SEAMAN



DONALD R. SEAMAN



D'ALTON L. SINCLAIR

AUDIT COMMITTEE REPORT

In accordance with contemporary corporate practice Bow Valley has had an Audit Committee since 1971. The Committee consists of three members of the Board of Directors who are not Officers or employees of the Company, namely Messrs. F. J. Ahern; W. A. Howard, QC; and D. L. Sinclair. The Committee meets at regular intervals with representatives of the Company's auditors, Price Waterhouse & Co. Except at the request of the Audit Committee, no members of the management are present at these meetings which thereby enables the Committee to obtain independent answers to and comments on any and all matters pertaining to the accounting and financial aspects of the Company's operation. Detailed minutes of these meetings are maintained.

While the Committee concerns itself with overall financial and accounting matters, it also reviews in detail all accounts presented in the Company's annual and interim reports to shareholders. This review includes such matters as the age and collectability of accounts receivable, the valuation and physical existence of inventories, the status of fixed assets, and the accounting treatment for depreciation and depletion as well as all pertinent items included in liabilities and net worth and a review of all internal controls.

A full report of the Audit Committee is made to the Board at least annually and the Directors' approval of the annual accounts is not given until this report has been presented and approved.

For the fiscal year ended May 31st, 1977, the Audit Committee found no matters requiring corrective action by the Board, including in particular the existence or suspicion of any improper payments made by any members of the management or staff.

F. J. Ahern
Chairman — Audit Committee

Officers

DARYL K. SEAMAN, Chairman of the Board and Chief Executive Officer
BYRON J. SEAMAN, Vice-Chairman of the Board
J. RICHARD HARRIS, President and Chief Operating Officer
DONALD R. SEAMAN, Senior Vice-President
FREDERIC J. WELLHAUSER, Vice-President
ROBERT J. PHIBBS, Vice-President — Administration
H. KEITH LAZELLE, Vice-President and Secretary
TREVOR A. LEGGE, Vice-President, Treasurer and Controller

Directors

FREDERIC J. AHERN, Vice-President, The United Corporation, New York
H. DONALD BINNEY, Senior Vice-President, Bow Valley Resource Services Ltd., Calgary
R. GUY GODBOUT, President, Les Industries Valcartier Inc., Montreal
JAMES S. GRAHAM, Industrialist, Vancouver
J. RICHARD HARRIS, President, Bow Valley Industries Ltd., Calgary
MAJOR GENERAL LORD MICHAEL FITZALAN HOWARD, KCVO, CB, CBE, MC, DL, Marshal of the Diplomatic Corps, London
WILLIAM A. HOWARD, QC, Barrister and Solicitor, Calgary
BYRON J. SEAMAN, Vice-Chairman of the Board, Bow Valley Industries Ltd., Calgary
DARYL K. SEAMAN, Chairman of the Board, Bow Valley Industries Ltd., Calgary
DONALD R. SEAMAN, Senior Vice-President, Bow Valley Industries Ltd., Calgary
D'ALTON L. SINCLAIR, Financial Consultant, Toronto

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Overseas Offices

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Lex House
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London W1X 1L3
Telephone: 734-3666
Telex: 23688

BOW VALLEY EXPLORATION (SINGAPORE) PTE. LTD.
1502 - 1503 Goldhill Plaza
Newton Road
Singapore 11
Telephone: 252-2160
Telex: 8724414

Transfer Agents

Common Stock
GUARANTY TRUST COMPANY OF CANADA, Calgary, Toronto, and Vancouver
THE BANK OF NEW YORK, New York
Preferred Stock, Series A
THE ROYAL TRUST COMPANY, Calgary, Winnipeg, Toronto, and Montreal
Second Preference Shares
THE ROYAL TRUST COMPANY, Calgary

Registrars

Common Stock
GUARANTY TRUST COMPANY OF CANADA, Calgary, Toronto, and Vancouver
THE BANK OF NEW YORK, New York
Preferred Stock, Series A
GUARANTY TRUST COMPANY OF CANADA, Calgary, Winnipeg, Toronto, and Montreal
Second Preference Shares
THE ROYAL TRUST COMPANY, Calgary

Stock Exchange Listings — Common Shares

Toronto Stock Exchange
American Stock Exchange
London Stock Exchange (Section 163(1)E)

Auditor

PRICE WATERHOUSE & CO.

Legal Counsel

HOWARD, DIXON, MACKIE, FORSYTH, Calgary
PAUL, WEISS, RIFKIND, WHARTON & GARRISON, New York
TEACHER, STERN, HUNTER & SELBY, London

Banker

THE ROYAL BANK OF CANADA



Bow Valley Industries Ltd.

nineteen seventy-seven annual report